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Ninth President of the Southern Economic Association, 1937–1938

Truman C. Bigham was born on July 4, 1896, at Gatesville, Texas. He died in Dallas, Texas, on December 30, 1952, and was buried in Gatesville, Texas. After receiving his A.B. degree at Baylor University in 1920, he was awarded a Spellman Fellowship and received his M.A. at the University of Chicago in 1925. He continued his graduate work at Stanford University and received his Ph.D. degree there in 1927.

In 1927, he accepted the position of associate professor of economics at the University of Arkansas, which position he held until 1930, when he joined the faculty of the College of Business Administration at the University of Florida as associate professor of economics. In 1931, he was promoted to a full professorship. In 1949, he was made chairman of Graduate Offerings and Degrees for the College.

Dr. Bigham was recognized nationally as an authority in his chosen field of Transportation and Public Utilities. He served as secretary to the National Board of Transportation Investigation and Research in 1941–42; consultant to the Florida State Comptroller and the Florida Railroad Commission in 1940; expert witness for Southern Governors in grain case before I. C. C. in 1952; advisor to Alachua County Commissioners on railroad taxation in 1952.

He was vice president of the Southern Economic Association in 1936–37, president 1937–38, a member of the Board of Editors of the *Southern Economic Journal* from 1940–50, director of a study published as Taxation and Public Debt in Florida, 1935. Besides contributing numerous articles to professional journals throughout the years from 1929 until his death, he was the author of *Principles of Public Utilities* (jointly with Eliot Jones), 1931, *Transportation: Principles and Problems*, 1946, *Transportation: Principles and Problems*, Second Edition, (jointly with Merrill J. Roberts), 1952, *Citrus Fruit Rates*, (jointly with Merrill J. Roberts), 1950.

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THE SIGNIFICANCE FOR AMERICAN POLICY OF BRITISH RESERVE LOSSES IN 1951–1952

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The facts of the startling change in the British economic position between June, 1951, and June, 1952, are well known, but the implications for American economic policy have not been properly examined. American international economic policies in the post-war period have been based upon the assumption that a restoration of relatively free multilateral trade within a relatively short period was both possible and desirable. While there has been no change in opinion regarding the desirability of trade liberalization, the progress toward its realization has met with one check after another. The British balance of payments developments in the twelve months following June, 1951, were so extreme that the underlying assumptions regarding the possibility of achieving our basic international economic policy in the near future, and the best methods of procedure, must be re-examined.

Relatively free multilateral trade can only be based upon the existence of an approximate balance in trade, including invisible items and normal capital flows, between various areas of the world such that any surplus or deficit will be limited in size to an amount which can be covered by changes in national reserves until adjustments can be made through variations in prices, income levels, interest rates, exchange rates, etc. When any area no longer possesses such an approximate balance and the ability to adjust without excessive reliance upon import restrictions to normal fluctuations in the balance before its reserves are exhausted, the basis for liberal multilateral trade disappears. Seven years after the end of World War II and after very heavy American assistance,[1] the United Kingdom has demonstrated in the year following June, 1951, that even a precarious balance has not been achieved. The loss of 56 per cent of the gold and dollar reserves in the nine-month period when they dropped from $3,867 million on June 30, 1951, to $1,700 million on March 31, 1952, might not be so significant as an indication of instability if it had not followed so quickly a period of apparent recovery. Following devaluation, reserves had risen from $1,425 million on September 30, 1949, to the post-war peak of $3,867 million in June, 1951.[2]

[1] The Anglo-American loan of December, 1945, for $3,750 million and Marshall Plan aid allotted between April, 1948, and September, 1951, of $2,694 million were the most important items. But any complete record would have to include many smaller amounts of direct and indirect assistance.

[2] There are many reasons why this recovery in reserves was more apparent than real in that it represented sharp, but largely temporary, changes in many economic factors. But to say that it was "bogus, since stocks at home were run down" as Mr. Harrod does

Considering previous rates of reserve losses it appeared early in 1951 that the upward movement in reserves was bringing Great Britain to a position where trade liberalization and an approach toward multilateralism were feasible. Even in the six-month crisis that led to devaluation in 1949 the reserves only dropped from $1,912 million to $1,425 million. A loss of that amount would have been easily bearable with reserves near $4 billion. In fact, the larger loss of almost $600 million in the three months from June to September of 1951 did not disturb international analysts very greatly. It was only when the losses continued at the rate of over $300 million per month during the next quarter that the serious nature of the crisis was recognized. American assistance, which had been suspended at the beginning of 1951, could not be approved again until February, 1952, because certain individuals in the American government could not believe that the crisis was serious.

Willingness to face economic realities was not aided by Churchill's naive statement before the United States Congress in January, 1952, that he only wanted steel from the United States, not money. As though the granting of economic assistance ever had any real significance other than its effect upon the ability of an economy to continue the import of steel and other materials necessary to keep it functioning!

FACTORS CONTRIBUTING TO INSTABILITY IN STERLING AREA EXTERNAL ACCOUNTS DURING 1951–1952

An understanding of why this drastic reversal in the balance of payments in the last half of 1951 occurred requires an examination of easily available statistical material. The cessation of American aid undoubtedly played a part. ECA assistance, including payments to Ireland which went into the sterling area pool and limited assistance to other members of the commonwealth, amounted to $445 million in the year ending June 30, 1951, but only $46 million in the following six months.[3] When it is noted, however, that the special aid in the year ending June 30, 1950, amounted to $1,122 million, it is obvious that the gain in the following twelve months when reserves rose to their peak coincided with a period of sharp decline in aid. Other sudden and important changes were taking place.

Among the most significant developments was the sharp rise in raw material prices which followed the outbreak of fighting in Korea. The resulting rise in export prices for the products of the overseas sterling area caused an increase

(see p. 31, *The Pound Sterling*, Essays in International Finance, No. 13, February 1952, Princeton University) is to place undue emphasis upon only one of the changing factors. United Kingdom imports from the dollar area did drop from $1,604 million in 1949 to $1,203 million in 1950, and stocks of imported raw materials definitely declined. But even more significantly the rest of the sterling area was at the same time shifting from a gold and dollar deficit of $147 million to a surplus of $714 million. (See Table 9, *United Kingdom Balance of Payments, 1948 to 1951*, No. 2, Cmd. 8505, Her Majesty's Stationery Office, London. April 1952.) The gain on the part of the overseas members represented a very important strengthening of the position of the sterling area as a whole; unfortunately for the commonwealth the improvement proved temporary.

[3] *Economic Trends*, March 1952, p. 11. Unclassified document issued monthly by Her Majesty's Government by the Central Statistical Office.

in dollar earnings which moved into the central reserves of the entire sterling area in London. But after reaching a peak in the spring of 1951 many of these prices suffered a serious collapse. The following table reveals the severity of the price movement for some of the more important of these commodities:[4]

	June, 1950	High point in 1951	Spring, 1952
Rubber (Malaya, 100 lbs.)	$ 26.80	$ 73.50 (Feb.)	$ 28.80 (May)
Tin (Malaya, 100 lbs.)	74.50	181.40 (Feb.)	117.90 (Apr.)
Wool, greasy (US, 100 lbs.)	67.80	156.40 (Mar.)	58.50 (May)
Jute (Pakistan, short ton)	201.00	413.00 (Apr.)	199.00 (Apr.)
Cacao (Gold Coast, 100 lbs.)	26.22	38.16 (July)	34.15 (May)

Since the sterling balances of Australia, Malaya, and certain other members of the commonwealth naturally rose in response to the improved earnings on these raw materials, their movements provide a significant indication of the importance of the changes in demand for raw materials. Liabilities to sterling area countries which had stood at £2,732 million on December 31, 1950, rose to £3,100 million on June 30, 1951.[5] At the current rate of exchange this meant an increase of sterling balances of $1,030 million, of which a considerable part represented net dollar earnings of overseas sterling area sales to American buyers. But the collapse of prices for many of the important overseas sterling area exports brought an equally significant drop in their sterling balances to £2,789 million on December 31, 1951.

As one of the very important markets for these products is the United States, it was natural that the changes in sterling balances noted above were associated with the rise in British gold and dollar reserves in the first half of 1951 and with the drastic reserve loss in the second half of the year. While the earlier rise in gold and dollar reserves represented to the British a welcome strengthening of the sterling area, it was not an unmixed blessing since these raw materials were important costs to the industries of the United Kingdom and their rise in price resulted in a severe worsening of the terms of trade.

The sharp change in dollar earnings by the rest of the sterling area can also be seen by a glance at the figures in millions of dollars from 1948 on:[6]

	1948	1949	1950	Jan-June 1951	July-Dec 1951 Provisional
Dependent overseas territories	+164	+149	+371	+328	+122
Independent sterling area countries	−474	−530	+62	+105	−314
Total dollar surplus or deficit	−310	−381	+433	+433	−192

[4] *International Financial Statistics*, Vol. III, No. 9; Vol. IV, Nos. 6, 10; Vol. V, Nos. 2, 7. Washington, D. C.: International Monetary Fund.

[5] *United Kingdom Balance of Payments 1948 to 1951*. No. 2. April 4, 1952. Her Majesty's Stationery Office. Cmd. 8505, p. 27.

[6] *Ibid.*, pp. 20–21. Gold sales to the United Kingdom are not included as they were in footnote No. 2.

It is obvious from these statistics that in the post-war period the typical situation has been one in which the dependent areas made a positive contribution to the United Kingdom gold reserves, but that the drain of the independent commonwealth countries resulted in a net loss for the overseas sterling areas as a whole. Even the addition of gold sales to the United Kingdom (primarily newly mined gold) left a net gold and dollar deficit except for 1950 and the first half of 1951. But the significance of these figures lies in their sudden shift. When the reserves of the entire sterling area during the post-war period are under $4 billion at the maximum and the average level has been only about $2 billion, it is obvious that a change from a dollar surplus of $433 million in one half year for the overseas sterling area to a $192 million deficit in the following six months constitutes an instability with which British reserves at recent levels cannot cope.

While a significant element in the shift first to a surplus and then to a deficit position was the rapid fluctuation in prices of overseas sterling area exports, the volume also changed significantly. American purchases of Malayan tin fell from a value of more than $20,000,000 in the first quarter of 1951 to $44,000 in the third quarter.[7] This change in level of purchases was the reflection of our attempt to force down tin prices regardless of the economic effect upon our most important ally. Smaller volume changes occurred in other items, such as rubber and wool, as a result of changes in American stockpile or inventory purchases and in the level of industrial activity.

On the other side of the trading picture overseas sterling area import values showed sharp changes. Exports by the United States to the non-OEEC independent members of the sterling area were $509.2 million in 1950, the value for 1951 was $1,045.4 million, and the continued increase into 1952 is indicated by a total of $239.4 million for the first two months or an annual rate of $1,436.4 million.[8] While some of the increased value of purchases from the United States was undoubtedly due to rising prices, volume was also expanding as a result of the prosperity engendered as raw material prices rose following the Korean outbreak and in consequence of relaxation in governmental import restrictions.

When the changes in export earnings of the overseas sterling area are compared with the shifts in import expenditures, it becomes obvious that both have played a part in the sharp reversals that have taken place in the contributions of dollar earnings that have been made to the United Kingdom reserves or the drain placed upon them by overseas sterling area dollar purchases. The reaction which improved export income has had upon import levels since Korea is best illustrated perhaps by the Australian trade figures in millions of dollars including all areas:[9]

	1950 JAN-JUNE	1950 JULY-DEC	1951 JAN-JUNE	1951 JULY-DEC
Exports, fob	803.0	872.9	1335.0	713.8
Imports, fob	664.6	751.9	915.9	1195.4
Apparent visible Trade Balance	+138.4	+121.0	+419.1	−481.6

[7] *US Imports of Merchandise for Consumption.* Department of Commerce. FT 120. Monthly Reports, 1951.

As might be expected imports did not rise simultaneously with expanded exports following the outbreak of fighting in Korea. Instead import value continued to rise well after the collapse had come in export earnings. The significant contribution made by this lag to the instability in foreign exchange earnings is revealed by the sharp shift from a visible trade surplus of over $400 million in the first half of 1951 to a deficit of almost $500 million in the last half.

To this natural, but delayed, response of imports to increased export earnings must be added the excessive reaction to changes in controls. As a result of the sterling area crisis just preceding devaluation in 1949 both the United Kingdom and other members of the sterling area agreed to limit imports in the effort to rebuild reserves. This policy undoubtedly played an important part in the increase of gold and dollars from $1,688 million at the end of 1949 to $3,300 million at the end of 1950, but it also left depleted inventories and accumulated consumption and investment needs which forced a resumption of buying in 1951. Added to this factor tending toward increased imports were the European Payments Union efforts in liberalizing trade reinforced by the improved United Kingdom reserve position which caused Great Britain to ease restrictions on imports from the OEEC area around the end of 1950. Such alterations in the stringency of controls naturally cause an excessive fluctuation around the average level of imports which adds significantly to the basic instability in the foreign trade pattern. The instability even assumes a cyclical form in which an imposition of controls, a decline in inventories, and a subsequent rise of reserves is followed by relaxation of controls, a rebuilding of inventories, and a fall in reserves which forces the reimposition of controls.

In the post-war period psychological factors have also made a significant contribution to the imbalance of international economic relationships. It might at first seem that the extension of exchange control to additional countries since the 1930's and improved enforcement would have reduced capital flight to a position of minor importance among the problems of maintaining external balance. But there are many indications that this is not the case. While it is possible to account for some of the shifts in capital movement by such items as the initial payment at the end of 1951 on the American and Canadian post-war loans, the change in capital transactions of the sterling area gold and dollar accounts from a +$393 million in 1950 to −$217 million in 1951[10] must have been due in large part to changes of confidence in sterling. The favorable figure for 1950 coincided with the increase in sterling area reserves and considerable speculation that sterling might be revalued upward, while the losses in 1951 came entirely in the last half of the year when reserves were falling rapidly and there were market rumors that sterling would be devalued. An important expression of fluctuations in confidence appears to have been variations in the time allowed for payment of imports, exports and invisibles, which permitted large changes by private firms in the holding of foreign balances.

[8] *Direction of International Trade*, Series T, Vol. III, No. 2. Supplementary Issue, February 1952, p. 63.

[9] *Ibid.*, Vol. II, No. 6, p. 121, and Vol. III, No. 1, p. 5.

[10] *Economic Survey for 1952*. Her Majesty's Stationery Office. April 1952. Cmd. 8509, p. 9.

Lack of confidence in currencies is increased by the continued uncertainty in the post-war period regarding ultimate exchange rates and the common assumption that existing rates would be changed when advisable in order to maintain external balance. Whether external equilibrium should be attained by internal measures affecting income and prices, or by alteration in the exchange rate, may be a proper sphere for policy determination by national authorities, but it must be expected that a choice of exchange rate manipulations as the tool for expressing economic policy will be accompanied by the embarrassment of sharp changes in foreign estimates of the long-run value of the currency. Experience after the First World War showed the heavy costs of internal disequilibrium involved in relying upon price and income changes to secure external balance; recent events have shown important economic costs associated with trade and exchange restrictions when a policy of internal balance with full employment places strain upon the balance of payments.

The difficulty in maintaining internal stability in the post-war period stems from many causes other than the efforts to maintain full employment. In the United Kingdom as in most other warring countries there had been an expansion in currency and liquid assets held by the people which was prevented from exercising its full influence through rationing and other direct controls, sometimes aided by fiscal policies or the willingness of individuals to continue to hold liquid purchasing power in the expectation of better prices or wider choices later. Unless this inflationary overhang were eliminated by drastic action, such as the conversion in Belgium in late 1944 or the German currency reform of 1948, it continued to be an element of instability. Expansion of production, an inflow of goods provided by United States assistance, budget surpluses, use of counterpart funds to retire short term government obligations, and other similar policies made contributions to the reduction of inflationary pressures, but the rise in prices following the outbreak of fighting in Korea demonstrated the narrow margin by which a limited stability had been achieved in Great Britain. Although some price increases resulted from the 1949 devaluation, an accelerated rise began after June, 1950, when the general wholesale price index rose from 119 in July (1948 = 100) to 153 in January, 1952, and then dropped slightly to 149 in July, 1952.[11]

The continued existence of severe inflationary pressures long after the end of the fighting in 1945 has definitely added to the difficulty of restoring balance in the external accounts of the United Kingdom. Only rigid controls over the movement of goods have prevented the exaggerated demand for imports and excessive internal consumption of production needed for export from making even greater additions to the balance of payments deficits. While the deflationary period which has normally followed major wars in the past may still create a different set of problems for the Western world, so far we have had to struggle with excessive consumer purchasing power rather than the reverse. While international tension continues to force a buildup of military strength at recent rates, the possibility of a shift to severe deflation appears remote. Should world tension

[11] *Monthly Bulletin of Statistics*, United Nations, January 1952, p. 113, and September 1952, p. 113.

ease and military expenditures be sharply reduced, it is probable that in the absence of a significant backlog of consumer durable demand or industrial investment needs the shift to deflation would be serious enough to create problems of instability quite as difficult to handle as the inflation of recent years. Almost inevitably the satisfaction of the backlog of these needs in the first post-war years will have created a cycle of consumption and investment which will plague us for many years.

Further disturbances to international balance have resulted from sharp changes in patterns of world trade. The most important cause of this difficulty has been the steady increase in the barrier to trade between the West and the Communist nations. Western Europe with only limited supplies of grain, lumber, and coal from Communist Europe has had to turn to the dollar area as the sole available alternative source for adequate quantities. Since the dollar area was less anxious to buy western Europe's machinery, fish, and textiles than eastern Europe had formerly been, imports of these goods drained dollar exchange or required United States assistance. The large amount of thought and effort that went into the OEEC area's attempt to build up its dollar exports and the limited success only demonstrated the difficulty of adjusting the previous normal patterns of trade to meet the new political and military situation. Technological change which had been enormously advanced by the war had developed substitute products and synthetic materials which also required major adjustments in international trade flows. New consumer tastes and preferences had been acquired in the period of forced change during the war. The flow of American machinery financed by United States aid in the post-war period will require continued expenditure on replacement parts after the flow of aid has stopped.

Other difficulties have arisen in connection with our basic financial institutions. Total gold reserves for the world as a whole had risen from $26,420 million in 1938 to $36,000 million in 1951.[12] When it is noted that world imports c.i.f. moved from $23,766 million in 1938 to $81,580 million in 1951,[13] it is obvious that the value of world trade was expanding much more rapidly than the level of gold reserves; the world as a whole in 1951 was forced to rely upon gold reserves equal only to about 44 per cent of annual imports, whereas in 1938 the relationship had been 111 per cent. If the total world reserves are adjusted by deducting the portion held by the United States, ($14,592 million in 1938 and $22,873 million in 1951),[14] the gold holdings in the rest of the world would be $11,828 million in 1938 and $13,127 million in 1951. Since a similar adjustment of trade figures would leave a rise of world imports, excluding the United States, from approximately $20 billion to $70 billion, the inadequacy of gold reserves for the rest of the world to finance its share of the trade becomes even more obvious.

The most important reason for this decline in gold reserves relative to trade was undoubtedly the tremendous increase in dollar commodity prices while the legal dollar price for gold remained fixed at $35 to the ounce, the result of political

[12] *International Financial Statistics*, July 1952, Vol. V, No. 7, p. XXII.
[13] *Ibid.*, p. XXIV.
[14] *Monthly Bulletin of Statistics*, January 1953, p. 161.

decisions which apparently will not be altered in the near future. Regardless of the wisdom of this fixed gold price policy, its inevitable result in a period of important general price increases is to reduce the capacity of national reserves on the average to finance changes in the balance of payments of individual countries in the period before adjustments can be made; the effect has been a significant contribution to international economic instability.

Another aspect of this policy of a fixed gold price has been that it lowered the purchasing power of newly mined gold when commodity prices rose. As Mr. Harrod points out,[15] if the dollar price of gold had been increased in proportion to the rise of the United States index of general prices in the post-war period, the newly mined gold acquired by the United Kingdom between 1947 and 1951 would have virtually eliminated the direct dollar deficit for that period. For Great Britain the inadequacy of gold reserves has also been increased by the rise during the war of external sterling liabilities, owed particularly to overseas members of the sterling area.

CONCLUSIONS

This paper represents an attempt to analyze primarily the short-run aspects of the instability of the sterling area. There are also important factors tending toward a long-run imbalance, but no attempt has been made to deal with them here. Some of the more commonly mentioned basic needs for achieving long-run external balance by the United Kingdom are: reduction in the volume of short term sterling liabilities, reopening of markets in eastern Europe and Asia or adjustment to their permanent loss, slackening in the abnormal post-war demand for dollar goods throughout the commonwealth, improvement in the terms of trade, and a reduction in the drain upon Great Britain for internal investment, capital for the underdeveloped areas, and rearmament expenditures. Without doubt the difficulties of the United Kingdom will only approach real solution when these problems have been handled. But a simple listing of the long-run factors emphasizes that an easing of the international tension and the adjustments which come slowly with passage of time are essential prerequisites for such a solution.

The restoration of multilateral trade can ultimately be achieved if we follow patiently a policy aimed at restoring an approximate balance in trade between the major economic areas of the world. Such an achievement will, however, require a recognition by the United States that its own external trade and investment policy must have as one of its essential aims the restoration of international economic equilibrium. Required action on the part of the non-dollar areas will include further reduction in trade barriers, control of inflationary pressures, probably additional adjustments in exchange rates, and perhaps other actions during the coming years. In the meantime we must solve the problems of living in a world in which the difficulties of short-run instability have been superimposed upon a structure of basic imbalance. Inability to secure immediate

[15] Roy F. Harrod, *op. cit.*, p. 22.

solution of the basic problems should not lead us to ignore possible palliatives for the short-run elements of instability.

In summarizing the previously mentioned causes of instability during 1951–1952 the following factors stand out:

(1) A sharp change in rate of flow of ECA funds to the United Kingdom.

(2) Violent fluctuations in the prices of sterling area raw materials with important markets in the dollar area.

(3) Significant changes in volume of purchases by the United States of raw materials, particularly those going into the strategic stockpile.

(4) Variations in the purchase of dollar goods by the overseas sterling area following changes in the severity of import restrictions.

(5) Lack of confidence in the intention of Great Britain to maintain the existing exchange rate and its ability to keep internal inflationary pressures under control.

(6) Lack of adequate gold and dollar reserves resulting in part from the maintenance of a fixed dollar price for gold while dollar prices of internationally traded commodities were rising rapidly in price.

It is obvious from a listing of these points that improvement in short-run stability would be greatly assisted by some adjustment of United States policies. Any change in the level of American aid should be made at a time and in an amount which will permit its absorption in the balance of payments without serious loss of reserves. American purchases of raw materials from abroad must not be allowed to fluctuate as widely as they did between 1949 and 1952 under the pressure of variations in international tension and changes in the level of industrial activity. Perhaps an extension of the principles of the International Wheat Agreement to the important raw materials of the sterling area would be justified as a means of assuring this country of a steady flow of important supplies and of guaranteeing the producers a stable market. If the operations of the International Monetary Fund are not adequate to maintain confidence in the stability of sterling (assuming reasonable cooperation on the part of the British government in its internal policies), then changes in the IMF or the establishment of an alternative agency seem to be indicated. While the political difficulties are obvious, it is reasonably clear that an increase in the dollar price of gold would make an important contribution in the establishment of adequate reserves in the other nations of the world.

But these policies on the part of the United States will be effective only if they are supplemented by appropriate action on the part of the sterling area. Since the British gold and dollar reserves are subject to withdrawal by any member of the sterling area, it is essential that policies be considered for the area as a unit.

Until the free world is able to work back to approximate general trade balance we must recognize the instability in the external balance of the sterling area for what it is, an interference with necessary trade flows, economic activity, and rearmament on the part of Great Britain. It will be a sacrifice of our own economic and military best interests if we continue to insist that our long-run policy precludes intelligent adjustment to present conditions under which our basic in-

ternational economic policy of liberalized multilateral trade cannot for the time be effectively implemented.

For example, current American policy in International Monetary Fund and GATT discussion requires that we insist that each independent member of the sterling area not impose restrictions against dollar imports unless they can be justified by the dollar balance of payments of that particular member. In other words, the United States refuses to recognize any right of the independent members to impose import restrictions in order to conserve the reserves of the sterling area as a whole. It is obvious that enforcement of our view would cause the dissolution of the sterling area, as it would prevent the independent members with positive dollar earnings from contributing significantly to the central reserves or to covering the drawings of the dollar deficit members. Such a policy would not even contribute to the selfish aim of increasing total dollar exports since the increased dollar purchases of such members as South Africa and Ceylon would tend to be offset by reduced buying on the part of the United Kingdom and other members enforced by the weakened central reserve position.

But the policy would prevent the sterling area from organizing its trade as a unit and attempting to use its limited dollar resources in the most effective way for economic reconstruction and military defense. If the various units forming the sterling area were currently able to adjust their trade with the dollar area so that deficits when they occurred could be covered by available reserves, American insistence upon liberalized multilateral trade through removal of discriminations against dollar imports would be appropriate. In actual fact the level of reserves, the rate of dollar earnings, and the need for American goods, combined with the extreme short-run instability, make liberalized multilateral trade including the dollar area impossible. But some approach to such trade among the members of the sterling area is feasible, partly because of a closer approach to balance between the units when the dollar area is excluded and partly as a result of a minimization of instability through bulk purchasing arrangements and closer political ties that permit more effective cooperation.

American policy also appears to be moving in the direction of denying that the European Payments Union members may direct their trade in such a way as to strengthen that area as a whole. In both cases we are following the contradictory policies of urging steps directed toward economic union of such areas and at the same time attempting to prevent the direction of trade that will be essential in providing the basis for effective union.

If inability to secure an adequate supply of dollar exchange with reasonable assurance of stability in such earnings forces a limitation upon total imports from the United States and Canada, then we must accept the need for Europe and the overseas sterling area to limit the purchases made with available dollar exchange to the items most essential for support of their economies. In the presence of unbalancing factors previously noted we must also expect that the sterling area and the European Payments Union countries will necessarily rely upon and expand the trade within these areas where cooperation and some elements of economic union will assure that instability will be kept to a minimum.

Our own selfish interest which requires strength in the free world will not be forwarded by attempting to insist that if shortage of dollars prevents relaxation of trade barriers between sterling area members and the dollar area, then equivalent trade barriers must also be maintained within the sterling area. Instead we must recognize that during the time before we are able to achieve our long-run aim of relatively free multilateral trade, the maximum economic advantage for the Western world (and also its maximum military strength) will be secured by encouraging a maximum of trade within the areas where it can move with a minimum of restrictions caused by balance of payments difficulties resulting from current instability in international economic relationships.

PRINCIPAL CONTRIBUTIONS TO INTEREST RATE THEORY SINCE KEYNES'S *GENERAL THEORY**

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The literature on the subject of interest rates since 1936 has been of course so large that a half-hour paper does not permit to examine the matter in detail. It is with regret that I must apologize therefore for the omission or the scanty treatment of many important aspects of what Professor Robertson has called "that central mystery of the economic scheme,"[1] and in particular for leaving out altogether any treatment of the theory as to the interrelationship of contemporary long and short term interest rates. Some interesting contributions have been made in that field,[2] particularly by Professor Lutz, but it has seemed that the principal advances relate to the theory of the determinants of interest rates and to the theory of the effects of interest rates. Thus this paper is divided into two parts, touching all too briefly on those two topics.

I

In 1938 we find the late Sir Hubert Henderson writing that "economists have been divided by abstract and complex issues as to the relative importance of the forces by which the rate of interest is determined . . .";[3] and such a statement was not at all surprising, for two years earlier Keynes had sprung upon us, in the shape of his liquidity preference theory, what appeared to be, and what he certainly thought to be,[4] an entirely new theory of interest rate determinants. There had followed, and was continuing at the time of Henderson's appraisal, what might be termed the Great Debate of the years 1936 to 1939, including some thirty or forty articles from our more prolific professional brethren.[5]

Before Keynes attacked it, the loanable funds theory had been accepted widely as a useful proposition, whatever uncertainty might remain over from the classical debates of Böhm-Bawerk as to the deeper influence of marginal productivity and of time preference upon rates of interest. But Keynes had produced apparently an antithesis: the Great Debate was the process of synthesis.

There is some difficulty in arranging in chronological order the results of this Great Debate,[6] but certainly one of the first results, of three principal ones with which this paper will deal, was a simple appeal to the system of general equilibrium of Walras. Professor Hicks pointed out at once that the rate of interest should be regarded as a price and thus as determined in a situation of equilibrium by the complete supply and demand information which the Walrasian system requires.[7] And Fleming,[8] Schumpeter,[9] and Robertson,[10] for example, and more recently Lerner,[11] Klein,[12] Fellner and Somers,[13] and Leigh[14] (what-

* A paper read at the Twenty-second Annual Conference of the Southern Economic Association on November 14, 1952.

ever the other differences between these latter) of course do endorse that view. But the Walrasian system achieves only, as Professor Lerner commented, "the correct but not very illuminating statement of general analysis that the rate of interest, like any other price, depends on everything in the entire economy."[15] Thus we may record progress from the various moments when it was realised that the subject of debate was not what general theory was correct, but what partial analysis was useful in respect of interest rate determinants. Certainly there have been and there remain vigorous advocates and vociferous critics both, of the marginal productivity theory of the time preference theory, of the loanable funds theory, and of the liquidity preference theory;[16] but no one questions the formal correctness, as distinct from the usefulness, of the Walrasian scheme. Thus our first measure of "progress" has been no more than a return to the old; from which may be inferred a repudiation of any claim to revolutionary advance on the part of Keynes; yet such an inference should be tempered in some further furnaces of controversy.

In the second place there has been what we may call the reconciliation of the loanable funds theory and the liquidity preference theory; to which modest piece of progress some of the principal contributors have been Hicks,[17] Robertson,[18] Ohlin,[19] Lerner,[20] de Scitovszky,[21] and Haberler,[22] whose general findings have been endorsed more recently by Brunner,[23] Johnson,[24] and Fellner.[25] Perhaps the reconciliation has been expressed most felicitously (in plain English) by Mr. Johnson, as follows:

> Once the conditions for ultimate equilibrium in the market for loanable funds are investigated (that is, once the Robertsonian exposition is translated into static terms) it becomes apparent that the loanable funds and liquidity preference theories amount to the same thing: each requires that in equilibrium the rate of interest must be such that *both* the rate of flow of savings is equal to the rate of flow of investment *and* the demand for money is equal to the existing stock of money. The latter requirement may equally well be stated in terms of the demand for and stock of existing securities, since both stocks are fixed at any moment of time and must be held by someone, and the rate of interest is the price at which one can be converted into the other.
>
> The two theories are thus formally identical. There is, however, an important difference in emphasis: the loanable funds theory, particularly in its pre-Robertsonian formulations, throws the emphasis on the role of the rate of interest as the equilibrator of the flows of saving and investment; the liquidity preference theory throws the emphasis on the role of the rate of interest as the equilibrator of the demand for and supply of existing stocks of money.[26]

In the third place, and most important, in relation to interest rate determinants, there have emerged what might be termed the models of the synthesists;[27] for these were contributed by those taking part in the Great Debate of 1936 to 1939 and by others clearly influenced by them. The common characteristic of these models is that they require the simultaneous determination of some four (occasionally three) other macro-economic variables in order to establish what is called conventionally "the" rate of interest.[27a] No doubt the most famous of them is that of Professor Lange, the components of whose model are: income,

taken as given: consumption, having a functional relationship with the rate of interest and with income; investment, having a functional relationship with the rate of interest and with consumption; and the identity $Y \equiv C + S$. Alternatively, "Total income being given, the rate of interest is determined exclusively by . . . the propensity to consume, the marginal efficiency of investment (which in turn depends on the marginal net productivity of capital), and by the condition that investment is equal to the excess of income over expenditure on consumption (*i.e.* saving)."[28]

But if this is the best known model of its kind, and one of the most useful for understanding, Professor Lange's way of thinking had been anticipated by Professor Reddaway whose immediate reactions to Keynes's *General Theory* included the suggestion of mutual determination, arranged in four equations, of saving, income, investment, the volume of money, and of course the rate of interest.[29] Moreover Mr. Harrod was a second forerunner, with a model using the marginal productivity of capital, the propensity to consume, liquidity preference, and the volume of money; the knowledge of those four leading to the determination of investment, income and the rate of interest.[30]

Among the contributors who followed Professor Lange, Professor de Scitovszky may be said to have stood mid-way between the reconcilers and the synthesists when he expressed the view that: "It is possible to conceive of the rate of interest as being determined by the supply and demand either of capital goods, or of securities, or of money."[31] But Professor Somers is a true synthesist in this particular sense: for, having made an admirable classification of all the theories of interest rate determinants, he emerged with a delightfully simple model in which the rate of interest is established according to the marginal rates of return on: consumption, production, cash or securities, in so far as people equate the marginal returns from these four.[32]

More recently M. Massé has evolved a less inclusive statement of what he calls the "polyvalence" of interest; the rate of interest being equal in his statement to the marginal rate of time preference, the marginal premium for liquidity, and the marginal efficiency of investment.[33] Professor Shaw, moving through successive approximations, has concluded: "It is still closer to the root of the matter to say that interest rates are determined by schedules of anticipated marginal rates of return on alternative uses of resources, including securities, money balances, exhaustive uses of resources, and productive business assets."[34] Finally we may note the recent observation of Professor Leigh, like that of Professor Somers pleasingly simple, as follows: "When an individual saves, he may use that part of his income to purchase a security or a claim, to purchase or construct some real capital good, to repay a debt, or finally, to increase his cash balance."[35] And it is clear to what kind of model this leads.

Of these eight contributors, all have a capital or investment component (if, rather loosely, we may so classify Somers's marginal returns from production); and we may say that these contributors follow thereby in the tradition of Böhm-Bawerk; of the eight again, seven have a money, cash or liquidity component,[36] indicating in part no doubt the influence of Keynes; seven have a consumption,

saving or time preference component; and four have a securities component. Thus the development has not been such that we can point with pride to the one and only useful model of interest rate determinants. But we cannot fail to see the strong family resemblance in the methods of these contributors. Perhaps we may agree further that the construction of these and similar models constitutes an important measure of progress, today commanding wide respect: and, in our field of study, that would be something.

The second part of this paper is confined to the effects of interest rates upon the internal tempo of an economy, omitting consideration of effects upon foreign exchange rates, in which latter regard there has been little progress since 1936. The purpose, still further limited indeed, is to explore what seems to be a wholly mistaken view, and, drawing upon many recent contributions, to make certain points which may be valuable, it is hoped, for a restatement of the theory.

The mistaken view, as I must claim it to be, is that interest rates are totally ineffective in controlling the tempo of an economy. Now no doubt we agree that a lowering of interest rates cannot succeed by itself, in the absence of more positive actions to the same end, or in the absence of fortuitous events of a reflationary nature, in lifting a modern industrial economy out of depression. That is not in question. But when the view that "interest rates are ineffective" comes to mean also that they cannot be used to control an inflationary situation—that is to say, that, if they were put up, they would not have that effect—then surely serious error has crept in.

Two of the roots of the view which I hold to be wrong are to be found no doubt in the writings of Dr. Ebersole[37] and Sir Hubert Henderson;[38] yet it may well be that this view has many other roots in the minds of business men who have wondered why economists were so concerned with something forming so small a part of business costs. Ebersole, dealing with case records of business decisions collected by the Harvard Graduate School of Business Administration, concluded: "that there is a strong presumption favoring the thesis that the interest rate is seldom considered as a factor in entrepreneurial decisions to expand or contract, and the interest rate is a controlling factor in a negligible number of instances."[39] No doubt this finding appeared to be a legitimate inference from the evidence; but two points suggest themselves: that interest rates might be effective without being considered consciously, and that the very few cases in which interest was "a controlling factor" would not be negiligible in their effect upon the economy if such cases, although exceptional, continued for some time to occur. Moreover, it is of course a long step on the slippery slope to go from Ebersole's guarded statement to the crude generalization that "interest rates don't work."

Henderson was even more careful, admitting that interest rates might be of decisive importance, but not through their influence on ordinary business men. It must be said that the evidence for his finding was slender to the point of emaciation.[40] Moreover this first Oxford investigation was conducted at a time when the symbolic British Bank rate had stood for years continuously at 2 per cent. A stream of traffic past a green light does not prove that a red light

will not bring it to a halt. Furthermore the second Oxford investigation,[41] conducted in 1939, tended to show, as it seems to me, the very considerable effect of credit influences; but here indeed both rates of interest and the availability of credit were in question. Again the amount of evidence was small, though much greater than in the first Oxford investigation. No doubt these origins of the ineffectiveness view were almost entirely unexceptionable inferences from commendable field research; but some of their consequences have been unfortunate.

Thus Professor Ellsworth is on record in a sense tending to belittle the effectiveness of interest rates.[42] Professor Hicks, although his views weigh in sum heavily on the other side, has recorded opinions which, if taken somewhat out of context, would support the ineffectiveness thesis.[43] Even Professor Sayers, dealing with the second Oxford investigation, cannot be said to have made a forthright statement against the ineffectiveness view.[44] And the authority of Professor Knight has certainly sustained it. Professor Samuelson, dealing with the effects of higher interest rates on banks, has shown how they may benefit, arguing in a logical but, as I shall try to show, a misleading fashion.[46] Professor Seltzer may have caused confusion when he argued that a severe increase of interest rates might cause inflation or deflation.[47] And Mr. Wallich attributed the successes of restrictive monetary policy in the past to credit rationing rather than to interest rates;[48] which is true in a sense no doubt, but not in the sense in which his words were likely to be understood. Finally, a few years ago, Professor Moulton made a full-blooded assault upon the orthodox view of the effectiveness of interest rate control of an inflationary situation, allowing only that a raising of interest rates might have some psychological effect which was hard to assess.[49] From these and similar beginnings it seems that there spread a quite widely prevalent disbelief in the old idea of the power of interest rates to control a boom.

Of course the weight of opinion, and of sheer cold fact, is massive upon the other side. Keynes[50] and Hawtrey[51] differ, broadly speaking, only in their emphasis upon long and short rates respectively, their views being, it is suggested, complementary. Hicks,[52] Bissell,[53] Hayek,[54] Robertson,[55] Lutz,[56] Shackle,[57] Allais,[58] Ohlin,[59] Leigh,[60] and Mrs. Robinson,[61] have been writing since 1936 substantially in the same sense. We can be in no doubt about the view entertained at the Federal Reserve Board.[62] One could quote from the *New York Times*,[63] or from *The Economist* of this year[64] to the same effect; and at great length from those most valuable publications, the documents of the Patman Subcommittee.[65] The attempt to make certain points for a restatement of the theory will draw upon contributions from these sources. It might be added indeed, to judge by their actions in the last few years, that the monetary authorities of Holland, Britain, France, Austria, Denmark, and Federal Germany (to mention only European countries) have been of like mind with the Federal Reserve Board.

In reality few may doubt today that, if interest rates are put up high enough, contraction will follow. Nor perhaps are many prepared solemnly to tell the monetary authorities of nearly all the Western nations that they are wrong;

that these increases of interest rates are abortive; and that they derive from faulty ideas current in the simple and easy days of the nineteenth century. For, whatever some economists may believe, these monetary authorities have rediscovered interest rates, and have done so by the hard path of experience. What points then should we restate as to the way in which interest rate increases operate on the economy?

The first point was put with clarity by Hicks in 1939. Setting his proposition against a British background, he wrote: "A rise in Bank rate can be taken to mean that the Bank will go on raising rates until demand is choked off; if it is so interpreted, it is bound to be effective."[66] Why does the conclusion follow? Why is demand bound to be choked off? Surely it is first and foremost—first in time and foremost in effect—because of the reactions of commercial banks? They call loans, and they refuse renewals and new applications for loans. They do so for the good reason that it will be the worse for them if they do not. Indeed they could not defy the central bank for any great length of time successfully even if they wanted to do so, and even if a great majority of them acted by tacit consent in concert. Moreover, so long as they did not cooperate, the outlook would be one of ever rising rates, with the prospect for them of bad debts from among their customers, losses or a forfeiture of power to maneuver in the short term market, book losses or realised ones on their bonds, and collateral in their hands beginning to look shaky. Without pursuing further the hypothetical effects on commercial bank assets, may we not say that the banks cooperate because it is in their interests to do so; that to hold out against the central bank would threaten their own soundness (so that there seems little advantage in stressing psychological effects so far as banks are concerned); and that therefore they act in anticipation, beginning to contract credit at the first signal, with an increase of even ¼ per cent in discount rate capable of serving as such a signal? Should we not remember how we used to be told long ago, in the fabulous days of the gold circulation standard, that national price levels were kept in line with each other by gold movements? And of course it was a myth, in the sense that central banks took remedial action in anticipation, so that the gold movements were few and small; too few and too small to do the job imputed to them. Just so it is a myth that banks are absolutely compelled by a ¼ per cent rise in a central bank's lending rate to lower the national income; but they will do that if the policy of the monetary authorities requires it. They prefer with good reason to act in anticipation, so that the great increases in interest rates which would really force contraction do not in general occur.

In the second place, very briefly, we may note the unreality of dealing with interest rates alone. It is all very proper in economic analysis to isolate the effects of a single cause, *ceteris paribus*, but if a central bank, uninhibited in controlling inflation, habitually accompanies a rise in its discount rate with open market sales, then the propositions resting on the *ceteris paribus* assumption lose in significance. These two parts of monetary policy are, as Hawtrey has said, "almost indistinguishable."[67] Is it thus of any avail for Samuelson to show how banks would profit from interest rate advances,[68] as though other things

would remain equal? It is contended that the interest rate advances themselves would upset the other things, and the open market operations likewise.[69] The problem of policy as it appears to central banks is that of easing or tightening credit; and "tightening" means both an increase in cost and a curtailment of quantity.

In the third place, it is contended that borrowers are not really unmindful of interest rate changes. As Mr. Malcolm Bryan said last March, having given several illuminating examples of those who know that they are affected by increases in interest rates, "The effects are many, subtle, geographically dispersed, and, curiously, often unobserved even by those who deal with them daily or are affected by them."[70] Those, surely, are the two sides of the matter? Some businesses, perhaps only a small minority, do have large interest costs, and therefore react directly. Other businesses have not, and therefore do not react directly; but these latter detect what Mr. Szymczak has called "a change in the business climate."[71] That change may well appear to them as a change downwards in prospective prices, including the prices of goods which they are considering whether or not to produce, or to order for stock.[72] Business men may say in all honesty and with conviction that they never concern themselves with interest rate changes; yet those can be the underlying realities causing that "change in the business climate" which is effective in determining their actions. Thus it is unavailing for Moulton to argue that a doubling of interest rates, from 3 per cent to 6 per cent, would require a price increase of less than a half of one per cent in the prices of manufactured products, whereas a mere 10 per cent increase in wages would need a 7 per cent increase in such prices; and thus that business men will not be affected by increases in interest rates.[73] For his wage increase does not constitute "a change in the business climate"; rather the reverse; the national income will be augmented thereby, and certainly at some times wage-earners are likely to save no great fraction of the increase in wages. But the increase in interest rates is different in kind. Even if the increase in interest charges were an immediate net addition to the national income (which could be shown easily, I believe, to be untrue); even if the addition came to persons who would spend it all rapidly: even so it is contended that the increase in interest rates would constitute "a change in the business climate"; and for that reason there would be no substantial group in the community, bankers or borrowers, who would not be affected by it.

Finally it may be thought that considerations as to the effectiveness of a particular instrument of monetary control are not without topical importance. Some may feel that virtually the same objections lie against qualitative controls as may be levelled against socialist planning; or that qualitative controls belong properly only to the extreme emergency of total war. We may believe furthermore that if and while taxation passes a certain point a budget surplus can be used no longer to control a boom. Then the question arises whether there is any other way to curtail inflation (in conditions of semi-peace) except by the use of the old-fashioned instruments of quantitative control, including rates of interest.

REFERENCES

[1] D. H. Robertson, *Essays in Monetary Theory*, 1940, p. 110.

[2] See, for example: B. Ohlin, *Economic Journal*, June, 1937, particularly p. 224; J. R. Hicks, *Manchester School*, April, 1939; *Value and Capital*, 1939, p. 145ff; R. G. Hawtrey, *Manchester School*, Oct., 1939, particularly p. 156; M. Kalecki, *Oxford Economic Papers*, Sep., 1940; F. A. Lutz, *Quarterly Journal of Economics*, Nov., 1940; R. M. Goodwin, *Review of Economics and Statistics*, Feb., 1943; G. L. S. Shackle, *Oxford Economic Papers*, March, 1949, particularly pp. 114–5; Joan Robinson, *The Rate of Interest and Other Essays*, 1952, pp. 7–20.

[3] H. D. Henderson, *Oxford Economic Papers*, Oct., 1938, p. 1.

[4] J. M. Keynes, *Economic Journal*, June, 1937, p. 241.

[5] Notably: J. R. Hicks, *Economic Journal*, June, 1936; W. B. Reddaway, *Economic Record*, June, 1936; Jacob Viner, *Quarterly Journal of Economics*, Nov., 1936; D. H. Robertson, *Quarterly Journal of Economics*, Nov., 1936; Wassily W. Leontief, *Quarterly Journal of Economics*, Nov., 1936; R. F. Harrod, *Econometrica*, Jan., 1937; J. M. Keynes, *Quarterly Journal of Economics*, Feb., 1937; B. Ohlin, *Economic Journal*, March, 1937; H. Townshend, *Economic Journal*, March, 1937; J. R. Hicks, *Econometrica*, April, 1937; B. Ohlin, *Economic Journal*, June, 1937; J. M. Keynes, *Economic Journal*, June, 1937; Carl Landauer, *American Economic Review*, June, 1937; B. Ohlin, *Economic Journal*, Sep., 1937; D. H. Robertson, *Economic Journal*, Sep., 1937; R. G. Hawtrey, *Economic Journal*, Sep., 1937; J. M. Keynes, *Economic Journal*, Dec., 1937 (two articles); Oskar Lange, *Economica*, Feb., 1938; A. P. Lerner, *Quarterly Journal of Economics*, Feb., 1938; D. H. Robertson, *Economic Journal*, June, 1938; J. M. Keynes, *Economic Journal*, June, 1938; A. P. Lerner, *Economic Journal*, June, 1938; Max F. Millikan, *American Economic Review*, June, 1938; Roderick H. Riley, *American Economic Review*, June, 1938; Carl Landauer, *American Economic Review*, June, 1938; J. M. Fleming, *Economica*, Aug., 1938; Edward S. Shaw, *Journal of Political Economy*, Dec., 1938; Paul A. Samuelson, *Quarterly Journal of Economics*, Feb., 1939; A. P. Lerner, *Quarterly Journal of Economics*, Aug., 1939; Oskar Lange, *Quarterly Journal of Economics*, Aug., 1939; Myra Curtis, *Quarterly Journal of Economics*, Aug., 1939; F. A. Lutz, *Quarterly Journal of Economics*, Aug., 1939.

[6] For example, W. B. Reddaway was envisaging a model dealing simultaneously with four variables (*Economic Record*, June, 1936, p. 35) before P. N. Rosenstein-Rodan argued, still uninfluenced by the *General Theory*, along Walrasian lines (*Economica*, Aug., 1936, p. 280); whereas J. R. Hicks appealed to the Walrasian system (*Economic Journal*, June, 1936, p. 246) before Oskar Lange's notable contribution (*Economica*, Feb., 1938).

[7] J. R. Hicks, *loc. cit.*

[8] J. M. Fleming, *Economica*, Aug., 1938, pp. 338–9.

[9] Joseph A. Schumpeter, *Business Cycles*, 1939, Vol. I, p. 78.

[10] D. H. Robertson, *Essays in Monetary Theory*, 1940, p. 10.

[11] A. P. Lerner, *Review of Economics and Statistics*, May, 1944, p. 89.

[12] Lawrence R. Klein, *Econometrica*, July, 1950, particularly n. 2, p. 238.

[13] William Fellner and Harold M. Somers, *Econometrica*, July, 1950, p. 244.

[14] Arthur H. Leigh, *American Economic Review*, Sep., 1951, p. 579.

[15] A. P. Lerner, *loc. cit.*

[16] Making a broad classification, one may include among the proponents of the marginal productivity theory Carl Landauer (*American Economic Review*, June, 1937, p. 262), N. Kaldor (*Econometrica*, July, 1937, particularly p. 231), Joseph A. Schumpeter (*Business Cycles*, Vol. I, p. 124 and Vol. II, pp. 602–14), D. H. Robertson (*Essays in Monetary Theory*, 1940, pp. 10–11), Frank H. Knight (*Review of Economics and Statistics*, May, 1941, p. 63), F. A. von Hayek (*Economica*, 1945, p. 25), J. Fred Weston (*American Economic Review*, May, 1951, p. 138), Arthur H. Leigh (*American Economic Review*, May, 1951, p. 166), and William Fellner (*American Economic Review*, June, 1952, p. 273); among critics of the marginal productivity theory, J. M. Keynes (for example, *Quarterly Journal of Economics*, Feb., 1937,

p. 233), in a very careful manner, Oskar Lange (*Economica*, Feb., 1938, p. 20), Maurice Allais (*Économie et Intérêt*, 1947, p. 453), Lloyd A. Metzler (*Journal of Political Economy*, Aug., 1950, p. 295), and Jacob A. Stockfisch (*American Economic Review*, May, 1951, p. 177).

Similarly among proponents of the time preference thesis may be included F. A. von Hayek (*loc. cit.*), R. S. Sayers (*Modern Banking*, 1947, p. 261) and E. Victor Morgan (*Oxford Economic Papers*, June, 1949, p. 187); and among its more vigorous critics Maurice Allais (*op. cit.*, p. 463), G. L. S. Shackle (*Oxford Economic Papers*, March, 1949, p. 100), and Arthur H. Leigh (*loc. cit.*, p. 172).

As to the loanable funds theory, J. R. Hicks (for example, *Econometrica*, April, 1937) may be reckoned a proponent, and D. H. Robertson is of course the most persistent advocate of this view (*loc. cit.*, p. 3, for example); George N. Halm accepts this position (*Monetary Theory*, 1946, ch. 17 and 18); William Fellner and Harold M. Somers (*Econometrica*, July, 1950, p. 244) differ from the Robertsonian position only in the wording employed; and Arthur H. Leigh (*American Economic Review*, Sep., 1951, p. 579) hardly in that. Critics of the loanable funds theory include not only Keynes (perhaps most succinctly in *Economic Journal*, Dec., 1937, p. 669 n.), but also Joseph A. Schumpeter (*Business Cycles*, 1939, Vol. I, p. 78 and Vol. II, pp. 602–14) and A. P. Lerner (*Review of Economics and Statistics*, May, 1944, p. 88), though there is no great difference between the position of Lerner (*ibid.*, pp. 89–90) and that of Hicks (*loc. cit.*).

The liquidity preference statement was developed further of course by Keynes (notably *Quarterly Journal of Economics*, Feb., 1937, *passim; Economic Journal*, June, 1937, p. 250; Dec., 1937, pp. 668–9; and June, 1938, p. 319), supported by Lerner (*Economic Journal*, June, 1938, *passim*), and even Max F. Millikan, though very critical, found some virtue in it (*American Economic Review*, March, 1938, Supp., p. 70); whereas J. M. Fleming (*Economica*, Aug., 1938, p. 340) thought it of practical use. More recently, David McC. Wright has praised "the Keynesian theory of the minimum rate of interest," but finds that rates of interest would exist, on certain realistic assumptions, even if there were no money (*American Economic Review*, June, 1945, p. 294); Dudley Dillard has been much more forthright in support of the liquidity preference position (*The Economics of John Maynard Keynes*, 1948, especially p. 199); Lawrence R. Klein (*Econometrica*, July, 1950, p. 238, n. 2) finds it consonant with conventional equilibrium theory, and Karl Brunner (*ibid.*, p. 250) accepts it within a static framework; while H. G. Johnson (*Review of Economic Studies*, 1951–2, p. 92) may be reckoned a discerning supporter. On the other hand the liquidity preference theory has had many important critics, including J. R. Hicks, who found it "otiose" (*Economic Journal*, June, 1936, p. 246; also *Econometrica*, April, 1937, and *Value and Capital*, 1939, ch. 12); Wassily W. Leontief (*Quarterly Journal of Economics*, Nov., 1936, p. 195ff); D. H. Robertson (*Quarterly Journal of Economics*, Nov., 1936, pp. 176–7; *Economic Journal*, Sep., 1937, p. 431; *Essays in Monetary Theory*, 1940, pp. 9–10; and *Review of Economic Studies*, 1951–2, p. 105); R. F. Harrod (*Econometrica*, Jan., 1937), who criticized only Keynes's covert use of marginal productivity; Carl Landauer (*American Economic Review*, June, 1937, p. 262); B. Ohlin (*Economic Journal*, Sep., 1937, and *The Problem of Employment Stabilization*, 1949, p. 157); Joseph A. Schumpeter (*op. cit.*, Vol. I, p. 78 and p. 127 n.; Vol. II, pp. 602–14); Frank H. Knight, in an interesting methodological criticism, which *inter alia* equates liquidity preference with time preference (*Review of Economics and Statistics*, May, 1941, p. 64); Daivd McC. Wright (*loc. cit.*), as stated above; George N. Halm (*Monetary Theory*, 1946, ch. 18); Edward S. Shaw (*Money, Income, and Monetary Policy*, 1950, pp. 326–8); and Arthur H. Leigh (*American Economic Review*, Sep., 1951, pp. 590–3).

Furthermore, some, including J. R. Hicks (*Value and Capital*, 1939, p. 167), G. L. S. Shackle (*Oxford Economic Papers*, March, 1949, p. 120) and E. Victor Morgan (*ibid.*, June, 1949, p. 187) like to lay particular stress upon risk (or uncertainty in Knight's sense), the influence of which few would deny, though Maurice Allais (*Économie et Intérêt*, 1947, p. 242) certainly does so, and J.-Cl. Antoine (*Revue d'Économie Politique*, mai-juin, 1948, p. 457) may have doubts of the same sort.

Of course these sundry authorities do not confine their views on interest rate deter-

minants to a position *pro* or *con* a particular set of propositions: thus, for example Hayek (*loc. cit.*) is almost exactly in the classical position of Böhm-Bawerk, and Kaldor (*loc. cit.*) perhaps as well; whereas Robertson's position is complicated in that he has accepted at one time or another (if this interpretation is correct) the marginal productivity, time preference, and either the loanable funds or the liquidity preference theories (compare particularly *Quarterly Journal of Economics*, Nov., 1936, p. 183 with *Economic Journal*, Sep., 1937, p. 431). And so it would be possible to restate more completely the views of other authorities; but the purpose of these citations was only to justify a statement of continuing divergencies of view.

[17] J. R. Hicks, *Economic Journal*, June, 1936, p. 246; *Econometrica*, April, 1937; *Value and Capital*, 1939, ch. 12.

[18] D. H. Robertson, *Quarterly Journal of Economics*, Nov., 1936; *Essays in Monetary Theory*, 1940, pp. 9–10; *Review of Economic Studies*, 1951–2, p. 105.

[19] B. Ohlin, *Economic Journal*, Sep., 1937.

[20] A. P. Lerner, *Economic Journal*, June, 1938; *Review of Economics and Statistics*, May, 1944, p. 88.

[21] T. de Scitovszky, *Economica*, Aug., 1938, p. 293.

[22] Gottfried Haberler, *Prosperity and Depression*, 1946, pp. 195–221.

[23] Karl Brunner, *Econometrica*, July, 1950, p. 250

[24] H. G. Johnson, *Review of Economic Studies*, 1951–2, particularly p. 92.

[25] William Fellner, *American Economic Review*, June, 1952, p. 271; his earlier model using functions of planned investment, saving, hoarding and new money (*Monetary Policy and Full Employment*, 1947, pp. 137–49) also constitutes a reconciliation.

[26] H. G. Johnson, *loc. cit.*

[27] The intention of these words is the same as that of Edward S. Shaw, who has written of his own model: "This garden variety of interest theory is eclectic." (*Money, Income, and Monetary Policy*, 1950, p. 326.)

[27a] Joan Robinson has made a serious attempt to go beyond the simplification of 'the' rate of interest, but the attempt leads to very considerable complications. (*The Rate of Interest and Other Essays*, 1952, first essay.)

[28] Oskar Lange, *Economica*, Feb., 1938, p. 20.

[29] W. B. Reddaway, *Economic Record*, June, 1936.

[30] R. F. Harrod, *Econometrica*, Jan., 1937, particularly p. 79.

[31] T. de Scitovszky, *Economica*, Aug., 1940, p. 293.

[32] Harold M. Somers, *Quarterly Journal of Economics*, May, 1941, particularly p. 506.

[33] Pierre Massé, *Revue d'Économie Politique*, janv.-fév., 1948, p. 122.

[34] Edward S. Shaw, *Money, Income, and Monetary Policy*, 1950, p. 317.

[35] Arthur H. Leigh, *American Economic Review*, Sep., 1951, pp. 584–5.

[36] R. F. Harrod (*loc. cit.*) has both the volume of money and liquidity preference.

[37] J. Franklin Ebersole, *American Economic Review*, March, 1938; *Harvard Business Review*, Autumn, 1938.

[38] H. D. Henderson, *Oxford Economic Papers*, Oct., 1938.

[39] *American Economic Review*, March, 1938, pp. 74–5.

[40] J. E. Meade and P. W. S. Andrews, *Oxford Economic Papers*, March, 1938.

[41] P. W. S. Andrews, *Oxford Economic Papers*, Feb., 1940.

[42] Paul T. Ellsworth (a note) *American Economic Review*, March, 1938, p. 70.

[43] J. R. Hicks, *Value and Capital*, 1939, p. 226 and p. 262.

[44] R. S. Sayers, *Oxford Economic Papers*, Feb., 1940, particularly p. 25.

[45] Frank H. Knight, *Review of Economics and Statistics*, May, 1941, particularly p. 60.

[46] Paul A. Samuelson, *American Economic Review*, March, 1945.

[47] Lawrence H. Seltzer, *American Economic Review*, Dec., 1945.

[48] Henry C. Wallich, *American Economic Review*, Dec., 1946.

[49] Harold G. Moulton, *Controlling Factors in Economic Development*, 1949, ch. x, # I.

[50] J. M. Keynes, *The General Theory of Employment, Interest and Money*, 1936, Book IV.

[51] Two later statements of his position are particularly clear: R. G. Hawtrey, *Capital and Employment*, 1937, especially pp. 119–20; and *Manchester School*, Oct., 1939, p. 144.

[52] J. R. Hicks, *Economic Journal*, June, 1936, p. 245; *Manchester School*, April, 1939, pp. 34–6, and Oct., 1939, p. 153; *Value and Capital*, 1939, p. 263.

[53] Richard M. Bissell, Jr., *American Economic Review*, March, 1938, p. 29.

[54] F. A. von Hayek, *Profits, Interest and Investment*, 1939, pp. 68–71.

[55] D. H. Robertson, *Essays in Monetary Theory*, 1940, pp. 3–4.

[56] F. A. Lutz, *American Economic Review*, Dec., 1945.

[57] G. L. S. Shackle, *Economic Journal*, March, 1946, particularly pp. 16–17.

[58] Maurice Allais, *Économie et Intérêt*, 1947, p. 167.

[59] B. Ohlin, *The Problem of Employment Stabilization*, 1949, p. 163.

[60] Arthur H. Leigh, *American Economic Review*, Sep., 1951, p. 588.

[61] Joan Robinson, *The Rate of Interest and Other Essays*, 1952, p. 77.

[62] See, for example, the address by M. S. Szymczak on 29 Aug., 1950, printed in *Federal Reserve Bulletin*, Sep., 1950; or *Federal Reserve Bulletin*, July, 1951, pp. 739–47. The views of the Board could be inferred indeed from its manifest desire to 'unpeg' government securities.

[63] For example, *New York Times*, Feb., 7, 1951, "Federal Reserve *versus* Treasury."

[64] May 31, 1952, pp. 567–8; June 7, 1952, p. 689.

[65] Joint Committee on the Economic Report, *Monetary Policy and the Management of the Public Debt* (Replies to Questions) Parts 1 and 2, 1952; *Hearings before the Subcommittee on General Credit Control and Debt Management*, 1952. Particularly relevant to the present discussion are, in the former publication, Part 1, pp. 363–92 (replies by the Chairman of the Board of Governors), Part 2, pp. 680–98 (replies by Federal Reserve Bank Presidents), pp. 852–61 and 864–8 (replies by the Council of Economic Advisers), pp. 1013–43 and 1066–81 (replies by economists), pp. 1148–60 (replies by bankers), pp. 1297–1302 (policy statement by N.P.A. group of economists); in the latter publication, pp. 77–9 and 100–4 (Mr. Martin), pp. 295–6 (Mr. Folsom), pp. 297–301 (Mr. Thomson), p. 326 (Mr. Hemingway), p. 347 (Mr. Fenelly), pp. 408–15 and 423 (Mr. Bryan), pp. 445–6 (Mr. Shanks), pp. 515–20 (Mr. Sproul), pp. 685–746 (panel of economists: "What Should Our Monetary and Debt Management Policy Be?").

[66] J. R. Hicks, *Manchester School*, Oct., 1939, p. 153.

[67] R. G. Hawtrey, *Manchester School*, Oct., 1939, p. 145. Compare also (*mutatis mutandis*) Edward C. Simmons: "Maintenance of predetermined yields on short-term government securities, in circumstances where funds flow rapidly in and out of the market, requires continuous dealing in this paper." (*Southern Economic Journal*, April, 1951, p. 412.)

[68] Paul A. Samuelson, *American Economic Review*, March, 1945.

[69] In the United States of course increases in required reserve ratios may be at times a third simultaneous instrument of policy having a similar effect.

[70] Malcolm Bryan, *Hearings before the Subcommittee on General Credit Control and Debt Management*, 1952, p. 413. Compare Joseph A. Schumpeter: "Thus interest intrudes into every transaction, calculation and valuation, turns time into a cost factor, and becomes that subtle and omnipresent entity that acts on and reacts to everything and is so difficult to trace in all its protean forms." (*Business Cycles*, 1939, Vol. II, p. 607.)

[71] M. S. Szymczak, an address before the School of Banking, University of Wisconsin, Aug. 29, 1950; printed in *Federal Reserve Bulletin*, Sep., 1950, p. 1114.

[72] It seems probable that Hawtrey's wholesalers will be affected in general more by the price outlook than by the change in interest costs (*cf.* Jan Tinbergen and J. J. Polak, *The Dynamics of Business Cycles*, 1950, p. 182). In respect of the Keynesian thesis, which may be considered complementary, it is instructive to read in the *Federal Reserve Bulletin*, May, 1951, p. 487: "Yields on high-grade corporate bonds rose from an average of 2.66 per cent for the week ending February 10 to 2.89 for that of May 12, an increase of 23 percentage points. In response to changing conditions in the long-term capital market, a number of corporate bond issues have been postponed or cancelled, . . ."

[73] Harold G. Moulton, *Controlling Factors in Economic Development*, 1949, pp. 306–7.

INTEREST RATE MOVEMENTS SINCE 1940*

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In a recently published essay, "What Has Happened to the Rate of Interest?",[1] Professor D. H. Robertson emphasized that his primary concern was what had happened to the interest rate in the "world of theory" rather than in the "world of fact." Professor Coulborn's article in this issue of the *Southern Economic Journal* is also an excellent review of interest rate developments, post-Keynes, in the "world of theory." Much of the voluminous literature on the subject of interest rates is similarly confined to the purely theoretical aspects. The following article attempts the reverse approach; namely, a review of what has happened to interest rates in the "world of fact" in the United States since 1940 with some consideration of the economic implications.

The validity and usefulness of theory, however, are largely circumscribed by its consistence with, and practical application to, the world of fact. Perhaps the most significant implication of the actual movements of interest rates during the period reviewed is that they demonstrate the need for further modification of the generally accepted theories (either the Keynesian liquidity preference theory or the so-called loanable funds theory) of the *determinants* of interest rates. Theory as to the *effects* of interest rates has also lagged behind developments in the world of fact and has only recently started to catch up by a shift in emphasis from the impact of interest rate changes on the borrower to their impact on the lender and on the "state of credit."[2]

More specifically, Keynes' unmodified theory of interest emerges as a "personal theory," in the sense that it is couched in terms of individual actions, motivations, and expectations. His basic concept of the propensity to consume is based on a "psychological law" of individual behavior, and his interest rate theory is related primarily to the individual's desire to hoard or to invest. And just as an individual propensity to consume is difficult to reconcile with the volatile flow of business savings, so is the increasing institutionalization of savings seemingly incompatible with an individual theory of liquidity preference. At times, interest rate movements since 1940 have related much more directly to institutional preferences for different types of earning assets than to individual preferences for cash *per se*. To have validity in the world of fact the liquidity preference concept should be expanded to embrace institutional preferences for shorter or longer maturities.

* A paper read at the annual meeting of the Southern Economic Association in Jacksonville, Florida, on November 14, 1952. Views expressed do not necessarily represent those of the Federal Reserve Bank of Richmond.

[1] D. H. Robertson, "What Has Happened to the Rate of Interest," *Utility And All That* (Norwich, 1952), 83 ff.

[2] R. V. Rosa, "Interest Rates and the Central Bank," *Money, Trade, and Economic Growth*, Essays in Honor of John Henry Williams (New York, 1951), 270-295.

Similarly, the tremendous growth in the flow of savings through institutional channels affects the general applicability of the loanable funds theory as it applies to the *aggregate* of the demand for and supply of funds. Movements in interest rates since 1940 have often been related to shifts in portfolios representing movements of funds *between* different segments of the market—not to quantitative changes in the aggregate demand for and supply of loanable funds. In fact, the interest rate structure may bring about such shifts and subsequent additions to the supply of loanable funds (as during the period of playing the pattern of rates), rather than involve a direct relationship between the supply of loanable funds and the rate of interest.

Another factor affecting the applicability of the loanable funds theory is the post-1940 growth in the public debt to the point where the yield on Treasury securities dominated interest rates throughout the capital market. As a result, interest rates have not necessarily been determined by the supply of and demand for loanable funds, but by more immediate market conditions reflecting both credit policy and debt management.

According to Keynes, uncertainty as to the future rate of interest is the *why* of liquidity preference; yet, in the world of fact this uncertainty did not simply affect the desire for cash *per se* but resulted in shifts from longer- to shorter-term maturities. And in the period of *least* uncertainty concerning the future of interest rates, the liquidity preference curve seemingly shifted upward rather than toward zero as Keynes argued.[3]

The structure of interest rates during the period since 1940 again emphasizes the need for reconsideration of the theoretical relationship between the short- and long-term rates of interest. In the development of economic thought the interest rate controversy has generally revolved around *the* interest rate with little or no attention given to the differences in rates in the various segments of the market. As Lutz pointed out, it has been popular to dismiss this simply by "adding a footnote to the effect that the author understands by *the* interest rate the whole 'family' of interest rates."[4] For example, in his discussion of the interest rate in the *General Theory*, Keynes noted that the argument could easily be restated in terms of the "complex of rates." At one point he attributed the complex to the difference in maturities; and, at another, to expectations.[5]

The post-Keynes explanation has generally involved making the long rate a mathematical average of current and future expected short rates, with the corollary view that it is necessary for short rates to change for a considerable period before long rates will be affected materially. However, after reviewing rate movements during the war and early post-war period, Murphy concluded:

> But careful study of the behavior of interest rates has shown that the actual structure of rates, at least in recent years, cannot be explained solely—or even primarily—on the basis

[3] J. M. Keynes, *The General Theory of Employment, Interest, and Money*, (New York, 1935), 208.

[4] F. A. Lutz, "The Structure of Interest Rates," *Quarterly Journal of Economics*, LV, No. 1 (Cambridge, 1941), 36.

[5] Keynes, *op. cit.*, 137 and 143.

of such forecasts but instead depends principally upon the supply of funds in the hands of different classes of investors and the laws and habit patterns which determine the maturity class of investment which that class of investor considers most "suitable" for its needs.[6]

In theory, the only "natural" structure of rates during the period of the fixed pattern would have been a single rate applicable to all maturities. In fact, pressure in that direction became evident during the war period (specifically, a downward pressure on long rates), but only after a time lag which continued even after the market became convinced of the stability of the pattern; and there obviously remained a liquidity preference differential between rates on long and short issues. Moreover, the corollary proposition that short rates fluctuate widely, with long rates following only after a sustained trend has been established, did not always hold during the period reviewed.

MAJOR MOVEMENTS IN INTEREST RATES, 1940–52

The post-war controversy over the effectiveness of small versus large changes in interest rates highlights the need for some consideration of semantics in attempting a review of "major movements" in interest rates from 1940–52. The term "major movements" connotes movements in rates that are quantitatively large and precisely determinable. The reverse view is more nearly correct; a "major movement" in interest rates may be defined only loosely and qualitatively—not quantitatively. For example, small changes in rates during 1946–48, when the money market was peculiarly sensitive to the more permanent absorption of the war-expanded public debt, might have been much more "major" in terms of impact than similar changes in other periods; e.g., 1938–40. From this approach, a chronological review of interest rate movements during the period in terms of important market and other developments surrounding these movements seems more useful for purpose of appraisal than a review confined to the larger quantitative changes in rates.

Background Developments

By way of background to the following chronological summary of rate movements since 1940, several developments in the 1930's are significant:

1) The unprecedented volume of excess reserves (primarily due to the gold inflow), together with a depression-diminished demand for funds, brought interest rates to record low levels by the latter part of 1939.

2) These same factors also reversed the historical relationship between short and long rates. Short rates fell below long rates, whereas prior to the 1930's short rates were higher than long rates.

3) In the spring of 1937, the Federal Reserve System adopted the policy objective of an "orderly market" for Government securities alongside that of promoting general economic stability.

4) The increasing institutionalization of the flow of savings made portfolio

[6] H. C. Murphy, *The National Debt in War and Transition* (New York, 1950), 102.

policies of intermediary financial institutions much more important to developments in the capital market. In addition, the public debt became an increasingly important part of the long-term debt structure.

Most of these developments were perpetuated or aggravated in the period under review and were closely related to movements in interest rates. During the war and post-war period to 1949, central bank policy progressed from "orderly market" objectives to "support" of a relatively fixed pattern of rates involving large additions to the reserves of the banking system. Institutional investors absorbed nearly three-fourths of the sharply expanded public and private long-term debt. The pattern of rates adopted perpetuated the distortion in the relationship between short- and long-term rates. As a result of the growth in the public debt, the yield on Treasury securities became predominant in the general level and structure of interest rates.

Summary of Rate Movements[7]

Current (November, 1952) flexible rates—with the cost of 1-year money exceeding 2 per cent and bill rates hovering around 1¾ per cent—contrast sharply with the extremely low and artificially maintained rates prevailing throughout most of the years under review.

Pre-war Preparation, 1939–1941

In the period of pre-war preparation from September 1939 to December 6, 1941, interest rates fell to the lowest level in the history of the country, and the depression-induced spread between short and long rates continued. This downward movement reflected an extension of the developments of the thirties—notably, a large volume of excess reserves, intensification of central bank efforts toward market stability, etc.

A break in the government security market in August–September 1939, reflecting the impact of international developments on investor psychology, caused a temporary, sharp rise in rates and necessitated substantial support operations by the Federal Reserve. Following this break, rates declined steadily until the end of 1940 (except for a brief interruption, largely confined to the low-grade corporate sector, in May 1940 following the invasion of France and the Low Countries). From the high point of September 1939 to the low of December 1940, interest rates declined by more than 1 per cent on intermediate Treasury bonds, by more than ¾ of 1 per cent on long-term Treasury bonds, and by about ⅔ of 1 per cent on high-grade corporates. Bill rates were actually negative at times, reflecting a "rights" value.

In mid-February 1941, long and intermediate rates resumed their downward movement, and the decline continued until the attack on Pearl Harbor. Market factors contributing to the 1941 rate decline included the potential effect of the elimination of tax exemption on future issues of U. S. Government securities.

[7] Charts on interest rates in "Federal Reserve Charts on Bank Credit, Money Rates, And Business" (Historical Supplement) may be helpful.

Short rates fluctuated somewhat irregularly and moved upward in the fourth quarter of 1941. This divergent movement in short and long rates was attributable primarily to the effect of increased reserve requirements on New York City banks, whose reserve positions had become much tighter, coupled with a substantial increase in the Treasury's weekly bill offerings.

Following the attack on Pearl Harbor, the security market registered a sharp price decline for three days, but this decline was not comparable with the break of September 1939. From December 10 to year-end 1941, security prices and yields showed little change.

War Finance, 1942–1945

The period of war finance, 1942 through 1945, was the period of the "pattern of rates," with key rates primarily reflecting the decisions of the monetary and fiscal authorities rather than underlying market pressures. The major decisions included the Federal Reserve System's pledge of "an ample supply of funds available at all times for financing the war effort" and the Treasury-Federal Reserve agreement on a relatively fixed pattern of rates in order to avoid the World War I experience of financing at successively higher rates.

The key rates finally agreed upon ranged from $\frac{3}{8}$ per cent on Treasury bills, to $\frac{7}{8}$ per cent on 1-year certificates, to 2 per cent on bank eligible bonds of about 10-year maturity, and to $2\frac{1}{2}$ per cent on the longest-term (25-year) bonds. At the time, there was some disagreement as to the specific pattern selected for the short end. The Federal Reserve favored slightly higher short-term rates to be maintained without a large volume of excess reserves; the Treasury apparently favored an even lower short-term rate and a continuing large volume of excess reserves to be assured by Federal Reserve operations.

The basic pattern of rates established, which really represented an extension of the structure of interest rates prevailing in early 1942, was maintained fairly effectively through 1944. However, increasing difficulty at the short end was reflected in the Treasury bill's loss of character as a market instrument and in the rise in certificate yields in late 1944.

In 1945, there was some modification of the basic pattern in the direction of even lower long-term interest rates and a consequent narrowing of the spread between short and long rates. Yields declined approximately $\frac{1}{2}$ of 1 per cent on 7- to 9-year Treasury bonds and about $\frac{1}{8}$ of 1 per cent on long-term bonds. The downward pressure on long rates reflected, in large measure, the growing bank practice of "playing the pattern of rates"—that is, selling short-term securities to the Federal Reserve and obtaining reserve funds, which permitted a multiple expansion in purchases of medium- and long-term bank eligibles.

Post-war Developments, 1946–1951

The downward pressure on long rates continued in early 1946; declines in yields on intermediate- and long-term bonds further modified the pattern of rates at the long end. By March 1946, yields on intermediate- and long-term

bank eligibles were off another $\frac{1}{4}$ of 1 per cent from the low levels of mid-1945. Correspondingly, by April 6, the yield on the bank ineligible, $2\frac{1}{2}$ per cent Treasury bonds of December 15, 1967–72 (offered at 100 in the Victory Loan Drive in December 1945), had fallen as low as 2.12 per cent.

Beginning in the second quarter of 1946, the downward movement of interest rates was reversed. A major factor accounting for the reversal was the change in the Treasury's needs, which enabled it to begin a program of debt retirement, thus exerting some pressure (through retirement of Federal Reserve holdings) on bank reserves and the money market. Other factors contributing to a rise in rates in 1946 included: the elimination of the preferential discount rate in April; the narrowed differential in rates which reduced the profit from playing the pattern; and specific market reaction to other developments, such as some speculative sales of Victory Loan bonds after the capital gains tax became operative, "moral suasion" by the American Bankers Association and the Reserve Banks, weakness in the stock market in the summer and early fall, and a somewhat slower rate of accumulation of investible funds.

The slight stiffening in rates in the latter part of 1946 did not alter basically easy credit conditions. Rates were still well below wartime levels, while bank holdings of Treasury bills and certificates were readily convertible into a reserve base for credit expansion as long as the Federal Reserve System continued its policy of maintaining interest rates at the short, as well as the long, end of the market.

Beginning in the summer of 1947, there was a shift to a considerably higher level of interest rates. This shift began at the short end of the market following the Federal Reserve System's discontinuance in July of its fixed buying rate on Treasury bills ($\frac{3}{8}$ per cent) and the Treasury's offer of an 11-month certificate bearing interest at $\frac{7}{8}$ per cent in exchange for a 12-month certificate bearing the same rate. By year-end 1947, the bill rate had risen to nearly 1 per cent; and the rate on new certificates was up to $1\frac{1}{8}$ per cent.

In the fourth quarter of 1947, long-term rates also rose sharply, primarily as a result of institutional sales of government securities to meet expanded demands in the private credit sector coincident with an increased supply of new corporate offerings. Insurance companies alone decreased their holdings of U. S. Government securities by approximately $1.5 billion in 1947. Selling pressures at the long end resulted in substantial support operations by the Federal Reserve System in the latter part of the year. Between November 7 and December 24, the Federal Reserve System made net purchases of $1 billion of bank eligible and restricted Treasury bonds; and, after lowering the support prices on December 24, the Federal Reserve System purchased an additional $1.1 billion between December 24 and year-end.

The rise in short- and long-term rates was temporarily arrested in the first half of 1948, but was resumed in the third quarter. In August 1948, the Treasury announced an offering of $1\frac{1}{4}$ per cent, 1-year certificates; and the Federal Reserve raised its rediscount rate from $1\frac{1}{4}$ per cent to $1\frac{1}{2}$ per cent. Short-term rates promptly rose. Slight increases were also registered in yields on high-grade

corporate and municipal issues; longest-term government bonds were held at support levels. Again in 1948, the major factors affecting the market were a continued high-level demand for long-term capital and continued institutional sales of large blocks of U. S. Government securities. Increases in reserve requirements in June and September partly offset the rise in bank reserves which resulted from these sales by life insurance companies and other nonbank investors.

Deflationary developments in the closing months of 1948 and through the summer of 1949 brought more moderate demands for credit and an abrupt change in market sentiment with consequent declines in interest rates. Large-scale institutional selling of securities subsided. Steps taken by the Reserve System to offset deflationary developments (including reductions in reserve requirements in April, June, August, and September 1949) strengthened bank demand for short- and medium-term Government securities and necessitated Reserve System sales in order to maintain the pattern.

The incompatibility of Reserve System sales and deflationary developments led the Federal Open Market Committee to announce, on June 28, 1949, that future operations would be directed "with primary regard to the business and credit situation." Following this announcement, more latitude was given—temporarily—to the market in the determination of rates; but a sharp drop in bill and certificate rates subsequently necessitated Reserve System sales "to maintain an orderly market."

A renewal of underlying inflationary pressures caused the Federal Reserve System in November 1949 to revert to a restrictive policy designed to encourage the upward pressure on short rates. However, the Treasury's "pre-announcement" on November 30 of the terms of the January 1, 1950, financing (specifically, a 1-year certificate at 1⅛ per cent) largely vitiated this policy since it necessitated substantial support operations by the Reserve System to avoid the risk of failure on a Treasury refunding.

Short-term interest rates advanced during 1950 and in the immediate pre-accord period of 1951 to the highest levels since the early 1930's. In the first half of 1950, rates on short-term securities moved irregularly higher—approximately ⅛ of 1 per cent; they advanced roughly another ¼ of 1 per cent between mid-year and December. Yields on longer-term securities (both government and corporate) also rose slightly in 1950. Continuing a policy of restraint in the first half of 1950, the Federal Reserve System made sales that more than counteracted an ample supply of investment funds from institutional lenders. Rate increases in the last half of the year, reflecting sharply expanding private credit demands, were moderated somewhat by net Federal Reserve System purchases in support of Treasury refunding operations following the divergent monetary-fiscal policy moves in August 1950. (The implications of an increase in the Federal Reserve discount rate from 1½ per cent to 1¾ per cent on August 18 were contradicted by a Treasury announcement on the same day of terms on the September 15–October 1 refunding—1¼ per cent, 13-month notes—slightly below the market rates prevailing at that time.)

Post-Accord, March 1951–November 1952

The Treasury-Federal Reserve "accord," announced in March 1951, brought about flexible interest rates, fluctuating in response to market forces, for the first time since the early 1930's. As subsequently revealed, the accord involved, in part, limited open market purchases (following the exchange offering) to be made only on a scale-down of prices and the immediate reduction or discontinuance of Federal Reserve purchases of short-term securities—which contemplated a level of short-term rates responding to market forces and fluctuating around the Federal Reserve discount rate.

Withdrawal of Federal Reserve support resulted initially in sharp increases in yields on intermediate- and longer-term Treasury securities and in a rise over the year of about 1/3 of 1 per cent in yield. By year-end, the longest-term Victory Bonds were yielding 2¾ per cent.

Rates on Treasury bills and short-term securities also rose sharply toward the end of March 1951 and again in the latter part of the year. Absence of Federal Reserve support for the bill market in December resulted in sharp increases in bill rates, with the rate on new issues rising to 1.865 per cent —the highest since 1933. At year-end 1951, short-term rates, on the average, were about 1/3 of 1 per cent higher than at the beginning of the year.

Intermediate- and longer-term rates moved downward in the first half of 1952 in response to a continued large volume of savings and widespread acceptance of the view that inflationary pressures had subsided. However, an increasing supply of Treasury bills and the banks' generally tight reserve positions pushed short-term rates still higher. In August, the 1-year financing rate topped 2 per cent, and the rate on new Treasury bills rose to an average of 1.903 per cent for bills dated August 14, 1952.

Underlying conditions in the money market remained tight in September and October as seasonal credit expansion and Treasury borrowing supplemented already high-level demands. However, pressure toward rising yields at the short end in late September and October was offset by active, nonbank demand, which was partly related to tax considerations; and by October 21, most short-term securities were at the lowest yield levels since last June. Similarly, yields on intermediate- and long-term Government securities declined slightly in October, partly reflecting market anticipation of a more ample supply of investible funds after the end of the year. However, in late October and early November, yields again moved upward.

Tightness in the money market resulted in a substantial increase in the volume of discounts. Compared with previously negligible levels, discounts rose to almost $1 billion in December 1951, close to $1.5 billion in July 1952 and currently (November 1952) are near $1.7 billion. The bill rate has actually been above the discount rate during much of this period.

Thus at the close of the period under review (1939 to November 1952) interest rates were flexible and responsive to market forces. As a result, a flexible monetary policy with possible effective use of the twin instruments of open market operations and discount rate changes to promote economic stability was once again a reality.

SOME ECONOMIC CONSIDERATIONS

Although some theoretical implications of the interest rate movements since 1940 were indicated in the introductory comments, the preceding review has been concerned primarily with actual movements in interest rates. Any appraisal has been confined largely to outlining the market and other forces relating to these rate movements rather than to considering the economic effects of changes —either actual or potential —in interest rates.

However, the economic effect of interest rate changes in this period has been the subject of much public controversy and critical review, including two extensive Congressional inquiries which involved a detailed examination of the role of interest rates in the war and post-war period. A wide range of views has been expressed regarding the implications of and the desirability of changes in interest rates.

On the one hand, the Council of Economic Advisers contended that "low interest rates are always desirable,"[8] and the former Secretary of the Treasury labeled the effectiveness of fractional changes in interest rates "a delusion."[9] In general terms, their position was that small changes in interest rates are ineffective, and large changes undesirable. On the other hand, spokesmen for the Federal Reserve System have maintained that relatively small changes in interest rates, and the changes in availability of funds which they reflect, may have considerable economic consequence, particularly in terms of the changed liquidity position of institutional lenders.[10] And it has been pointed out that, while the sensitivity of borrowers to interest rate changes "varies widely," interest as a cost factor may still be important in a number of different cases, such as certain fields of long-term investment, certain marginal borrowers, etc.[11]

The 1949 Congressional inquiry, referred to as the Douglas inquiry, reviewed the question of the rationale of the structure of interest rates maintained during the war and early post-war period and the question of whether higher interest rates would have lessened inflationary pressures in the 1946–48 period. On the basis of its review, the subcommittee finally recommended:

> . . . that an appropriate, flexible, and vigorous monetary policy, employed in coordination with fiscal and other policies, should be one of the principal methods used to achieve the purposes of the Employment Act. . . . The vigorous use of a restrictive monetary policy as an anti-inflation measure has been inhibited since the war by considerations relating to holding down the yields and supporting the prices of United States Government securi-

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[8] *Hearings* Before the Joint Committee on the Economic Report, Congress of the United States, 81st Congress, Second Session, pursuant to Sec. 5(A) of Public Law 304 (Washington, 1950), 68.

[9] Address by Secretary of the Treasury John Snyder before the New York Board of Trade on January 18, 1951, "Financial Mobilization and the Interest Rate," *The Commercial and Financial Chronicle*, Vol. 173, No. 4980 (New York, 1951).

[10] Allan Sproul, "Changing Concepts of Central Banking," *Money, Trade, and Economic Growth*, Essays in Honor John Henry Williams (New York, 1951), 321.

[11] *Monetary Policy and the Management of the Public Debt*, Replies to Questions and Other Material for the use of the Subcommittee on General Credit Control and Debt Management of the Joint Committee on the Economic Report, Part I, 82nd Congress, 2nd Session (Washington, 1952), 369 ff.

ties. As a long-run matter, we favor interest rates as low as they can be without inducing inflation, for low interest rates stimulate capital investment. But we believe that the advantages of avoiding inflation are so great and that a restrictive monetary policy can contribute so much to this end that the freedom of the Federal Reserve to restrict credit and raise interest rates for general stabilization purposes should be restored even if the cost should prove to be a significant increase in service charges on the Federal debt and a greater inconvenience to the Treasury in its sale of securities for new financing and refunding purposes.[12]

In 1951–52, the Patman subcommittee reexamined the same basic issues with respect to the role of monetary policy and the specific effect of changes in interest rates. Although the subcommittee in its final report reaffirmed the recommendation of the Douglas subcommittee with respect to the role of monetary policy and the desirability of Federal Reserve freedom to raise interest rates, it reflected more of the Treasury philosophy that a restrictive credit policy can be "too effective," so that when needed it should be undertaken with "great caution and delicacy."[13] Thus, the Patman subcommittee recommended the use of monetary policy as a "principal means" of stabilization but noted that "it must be used with caution, however, in order to insure that measures taken to halt an inflation do not aggravate a subsequent period of depression, or *vice versa*."[14]

From the preceding review of interest rate movements in the world of fact since 1940, the following observations may be made:

1) The supported wartime pattern of rates involved almost unlimited access to reserves and the negation of any effective monetary policy, which is dependent upon flexible rates and corollary changes in the availability of funds. Although the implication of the fixed pattern has been labeled "a calculated war risk,"[15] question may still be raised as to whether the reasons advanced for taking that risk, such as the assured market and the low cost of Treasury borrowing, are not outweighed by the risks of money creation during an inflationary period.

At the Douglas inquiry, both the Chairman of the Federal Reserve Board and the Secretary of the Treasury defended the maintenance of a stable structure of rates, although the former noted "not necessarily the particular highly abnormal structure of rates which happened to exist at the beginning of the war."[16]

[12] *Monetary, Credit, and Fiscal Policies*, *Report* of the Subcommittee on Monetary' Credit, and Fiscal Policies of the Joint Committee of the Economic Report, Senate Document No. 129, 81st Congress, 2nd Session (Washington, 1950), 1–2.

[13] *Monetary Policy and the Management of the Public Debt* (Replies to Questions), *op. cit.*, 83. For a more complete discussion of the Patman Inquiry see B. U. Ratchford, "Congress Studies Fiscal and Monetary Policies," *Southern Economic Journal*, XIX, No. 2 (October, 1952).

[14] *Monetary Policy and the Management of the Public Debt*, *Report* of the Subcommittee on General Credit Control and Debt Management (Washington, 1952), 3.

[15] Sproul, *op. cit.*, 304.

[16] *Monetary, Credit, and Fiscal Policies*, A Collection of Statements Submitted to the Subcommittee on Monetary, Credit, and Fiscal Policies by Government Officials, Bankers Economists, and Others; Joint Committee on the Economic Report, 81st Congress, 1st Session (Washington, 1949), 34–35.

In retrospect, it seems that, at a minimum, the pattern of rates was too rigid and should have involved more flexibility, particularly at the short end. As pointed out in the review of rate movements, the basic pattern of rates represented an extension of prevailing rates, which in turn reflected a large surplus of excess reserves, a depression-diminished demand for funds, and uncertainty as to future rate movements. Early in the war period, credit demands rose, excess reserves declined, and the uncertainty virtually disappeared; so the pegged pattern became increasingly inappropriate, and its maintenance required large additions to reserve funds in the form of Federal Reserve credit.

However, the consequences of maintaining *any* given pattern of rates are clear and may be persuasive in appraising the alternative methods of war finance. Thus, the real "lesson of war finance," as pointed out by Woodlief Thomas, is that in the future we may hope "to avoid another attempt to finance a war with a structure of interest rates that can exist only in a depression or by unlimited monetary creation."[17]

2) The effectiveness of the rise in short-term rates, when finally permitted in the inflationary 1947–48 period, was vitiated by additions to the supply of credit resulting from continued adherence to the "peg" at the long end of the market and by the fact that higher short rates still represented pegged rates. In late 1947 through 1948 Federal Reserve net purchases of bonds totaled approximately $10 billion, which more than offset the effect of the increased attractiveness and holding of short-term securities. The narrowing of the spread between short and long rates, however, did restrain to some extent the playing of the pattern of rates by banks. Again, the experience in this period indicates the inability of monetary policy to function effectively with a policy criterion of maintaining any given structure or level of rates.

3) The increased availability of funds, as reflected in lower rates in the 1949 "recession" was probably a factor contributing to the rapid reversal of deflationary pressures.

4) The effectiveness of the modest rise in short-term rates in the fall of 1950 was limited by Reserve System operations which, on balance, supplied additional bank reserves. The Reserve System purchased a large amount of short-term Government securities in September and December in support of Treasury refunding operations and also bought a substantial amount of long-term Government securities in order to maintain yields. In view of this, interest rate movements were kept within narrow limits, and there was little possible moderation of the sharp, post-Korean credit expansion.

5) The reintroduction of flexible rates in March 1951 made possible an effective use of the instruments of monetary policy for the first time since the 1920's. Interest rates subsequently have reflected the market forces of supply and demand for credit rather than the maintenance by the monetary authorities of any given level of rates. Freed from interest rate objectives, monetary policy has been a contributing factor to economic stability in the 20-month period March 1951–November 1952. Flexible (higher) rates have deterred lenders from

[17] Woodlief Thomas, "Lessons of War Finance," *American Economic Review*, XLI, No. 4 (Menasha, Wisconsin, 1951), 631.

freely utilizing their Government securities portfolios to obtain funds to support private credit expansion. Thus, in mid-November 1952, monetary policy was successfully influencing the volume of reserve funds so as to permit the necessary expansion of public and private credit without adversely affecting stability.

CONCLUDING COMMENT

In considering the economic implications of rate movements—or lack of movements—in the war and early post-war period, the important point is not the movements in rates themselves but the question of the availability of funds. In some instances, higher interest rates might have proved a deterrent both as a cost factor and by lowering the borrowers' valuation of assets. More important, however, they would have reflected and involved a reduced availability of funds on the part of the lenders.

This was clearly brought out in the Federal Reserve Bank presidents' joint answer to the Douglas subcommittee, which noted that the objective of a more restrictive monetary policy would have been to restrain the supply and availability of borrowed funds and that "a rise in interest rates would have been the concomitant (and not the precise objective) of such a policy."[18] In supporting inflexible rates, monetary policy lost most of its influence over the volume of reserves and the availability of funds.

The final Patman subcommittee report, however, discounts the Federal Reserve's emphasis on the availability of funds by arguing that changes in the availability of funds are simply "transition phenomena" leading to changes in interest rates. This line of reasoning misses the basic point as to the interrelationship of changes in the availability of funds and interest rates. The report implies that the necessary causal sequence runs from reduced availability of funds to higher interest rates, with credit again becoming available at the higher interest rates and the higher rates performing the necessary rationing of credit.[19] This again seems to be a step backward toward evaluating interest rate changes only in terms of the impact on borrowers rather than on lenders.

Thus, in the world of fact, the final result may not be that credit is freely available at higher interest rates but rather that credit is not available at all. Institutional lenders may be unable (or unwilling) to extend credit because of the effect of interest rate changes on the liquidity of their asset portfolios. Specifically, in the post-accord period, the rise in interest rates on mortgage loans was not the factor that reduced the expansion of credit in this area; rather, it was the effect of a higher rate structure (i.e., lower prices on their investment portfolios) on the policies of institutional lenders. Thus, the Patman subcommittee's emphasis on the cost of borrowing as the focal point in considering changes in the supply of credit (with changes in "availability" labeled "transition phenomena") is a reversal of the reconciliation of the world of theory and the world of fact.

[18] *Monetary, Credit, and Fiscal Policies* (Statements), *op. cit.*, 104.
[19] *Monetary Policy and the Management of the Public Debt, Report*, *op. cit.*, 33.

ECONOMIC IDEAS IN CONTEMPORARY LITERATURE—THE NOVELS OF THOMAS WOLFE

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Economists have an interest in the economic ideas in the novels of contemporary literature because these ideas compete with those of economists in policy determination. Literary critics point out that contemporary novels in an important way deal with the social order. Critic Lionel Trilling says:

> Yet there never was a time when its [the novel's] particular activity was so much needed, was of so much practical, political, and social use—so much so that if its impulse does not respond to the need, we shall have reason to be sad not only over a waning form of art but also over our waning freedom.[1]

Howard Mumford Jones, Professor of English at Harvard University states:

> The honest craftsman cannot avoid the problem. He need not be a professional economist, he need not be an expert in government to be profoundly concerned for the incidence of big business on private lives, the dissatisfactions arising from finance capitalism, . . . and what he sees is that the contemporary equivalent of *panem et circenses* —the movies and professional football—does not long content the American soul.[2]

The economic ideas of contemporary novelists have sufficient impact on policy determination to merit more consideration than they have received from economists. Frank H. Knight points out that the main value of economic theory and principles is in policy determination, but then in admittedly a "complaining tone," adds that "the really important things that economics has to teach" have little influence on the people of a democracy, "and it is hard to believe in the utility of trying to teach what men refuse to learn or even seriously listen to."[3] This statement probably underestimates the influence of economics on public policy, but, whatever the extent of this influence, it is clear that it has important competitors.

The novelist is one of the most interesting of these competitors and possesses some advantages over the economist in the communication of ideas. On a purely quantitative basis of book sales, the novelist has a definite edge over the economist. For example, *Look Homeward, Angel* by Wolfe has sold 207,000 copies while his novel, *You Can't Go Home Again*, has sales of 181,581 copies to date.[4]

[1] Lionel Trilling, *The Liberal Imagination* (New York: The Viking Press, 1950), p. 222.

[2] Howard Mumford Jones, "Literature and the Economic Order" in *Saving American Capitalism*, Seymour E. Harris (ed.), (New York: Knopf, 1948), pp. 353–354.

[3] Frank H. Knight, "The Role of Principles in Economics and Politics," *American Economic Review*, March 1951, p. 4.

[4] Data include total sales in the United States up to April 22, 1952, and were furnished by Edward C. Aswell, Administrator, C. T. A., Estate of Thomas Wolfe in a letter of that date.

These are not record figures for novel sales but they probably surpass all records for economic books with the possible exception of widely used text-books.

The novelist is not confined by the rules of the scientific methodology of the economist; he is free to play on the imaginations and emotions of the reader and it may well be that the ideas that he leaves in the mind of the reader sink in more deeply and have a more lasting impression than those left by the economist.

The purpose of this article is to examine the representation of things economic and to appraise the economic ideas in the novels of Thomas Wolfe. Consideration will be directed primarily to ideas that can be obtained by reading the novels because the economist is interested in the novelist as a competitor in communicating ideas to the public. Attention will not be given to origins of the novelist's thought in the books he read or the people he met. That appears to be a problem for research by scholars of literature.

The subjective method of considering the economic ideas that come through to the reader appears to be justified from the nature of literary craftmanship. Maxwell E. Perkins, former editor of Scribner's, who was influential in shaping Wolfe's writing for publication, states:

Old Tom has been trying to change his book into a kind of Marxian argument (having written most of it some years before he ever heard of Marx), and I have been trying to express to him that very thing, that what convictions you hold on economic subjects will be in whatever you write, if they are really deep. So you don't have to drag them in.[6]

In considering Wolfe's economic ideas it is helpful first to establish his appraisal of the science of economics and to attempt to discover his set of principles or "economic theory." In reading his novels, particularly the first, *Look Homeward, Angel* and his last, post-humous *You Can't Go Home Again*, which I regard as the two most important from the economist's standpoint, an impression is received of an "economic theory," or at least a frame of reference, within which his economic comments or ideas can be fitted.

In Wolfe's view economics provides an inadequate answer to the problem of man and his relationships with the economic and social order. He maintains that it is not enough to describe the breakdown of the system that occurred in 1929 as a financial ruin and economic depression, for the breakdown merely

laid bare the deeper and more corrosive ruin within. And this deeper ruin—the essence of the catastrophe—was the ruin of human conscience.

Here was a town of fifty thousand people who had so abdicated every principle of personal and communal rectitude, to say nothing of common sense and decency, that when the blow fell they had no inner resources with which to meet it. . . .

. . . It was the ruin of men who found out, as soon as these symbols of their outward success had been destroyed, that they had nothing left—no inner equivalent from which they might draw new strength. It was the ruin of men who, discovering not only that

[6] Letter to Ernest Hemingway, November 28, 1934, in *Editor to Author, The Letters of Maxwell E. Perkins* (New York: Charles Scribner's Sons, 1950), p. 98.

their values were false but that they never had any substance whatsoever, now saw at last the emptiness and hollowness of their lives. Therefore they killed themselves; and those who did not die by their own hands died by the knowledge that they were already dead.

How can one account for such a complete drying up of all the spiritual sources in the life of a people?[6]

This question, Wolfe alleges, has no interest for the economists of "the system."

For them, it belongs to the realm of the metaphysical—they are impatient of it, they will not trouble with it, they want to confine the truth within their little picket fence of facts. But they cannot. . . . When all these facts are added up, they still don't give the answer. For there is something more to say.[7]

Wolfe then attempts to describe the origins and nature of this spiritual emptiness of modern Americans.

One does not know at just what moment it began, but one suspects that it began at some time long past in the lone, still watches of the night, when all the people lay waiting in their beds in darkness. Waiting for what? They did not know. They only hoped that it would happen—some thrilling and impossible fulfillment, some glorious enrichment and release of their pent lives, some ultimate escape from their own tedium.

But it did not come.[8]

The novelist's task is to frame in language something of what the spirit craves:

But if speech could frame what spirit utters, if tongue could tell what the lone heart knows, there would be answers somewhat other than those which are shaped by the lean pickets of rusty facts. There would be answers of men waiting, who have not spoken yet.[9]

In his view Americans strike a poor bargain for they settle for economic fulfillment instead of seeking true spiritual fulfillment which they really hunger for. In one episode Wolfe uses his home town as a symbol for the social order. His character Judge Bland had come from an outstanding Confederate family, had had a good education, and had started out as a promising lawyer, but he became blind and sank to the low level of being a usurious lender to poor Negroes. He is described as "stained with evil." It was he who told the protagonist "You can't go home again" when they met in a Pullman car returning to their home town, and his meaning, as shown in the following quotation, was that the home town, or social order, had no place for his personal values:

Was it possible that in the blind man whose whole life had become such a miracle of open shamelessness, there had once been a warmth and an energy that had sought for an enhancement of the town's cold values, and for a joy and a beauty that were not there, but that lived in himself alone? Could that be what had wrecked him? Was he

[6] Thomas Wolfe, *You Can't Go Home Again* (New York: Harper & Brothers, 1940), pp. 369–370.

[7] *Ibid.*, p. 370. [8] *Ibid.*, p. 370. [9] *Ibid.*, p. 371.

one of the lost men—lost, really, only because the town itself was lost, because his gifts had been rejected, his energies unused, the shoulder of his strength finding no work to bend to—because what he had had to give of hope, intelligence, curiosity, and warmth had found no place there, and so were lost?[10]

Wolfe regards economics as confined to a picket fence of facts. He does not criticize the accuracy of the facts or analysis within the picket fence, but he condemns a social order that ordains the confinement of man to the picket fence. He believes that the valuable part of life, the part that deals with true values, lies beyond the fence and that the depression highlighted the neglect of these areas.

THE ECONOMIC HISTORY OF A BOYHOOD, 1900–1912

Wolfe's novels are highly autobiographical so that the protagonist in each can be quite safely identified with the author. This makes a study of the economic background of Eugene Gant in *Look Homeward, Angel* of double interest for it not only shows the economic impacts on an American boy of this generation but also helps explain the development of the economic viewpoint of the author.

In 1912 the parents of Eugene Gant (or Thomas Wolfe) had total assets of about $100,000, much of which was invested in choice bits of real estate in and around Altamont (Asheville, North Carolina) which was later to multiply in value. Their annual income is computed in the range of $8,000 to $10,000, of which approximately $2,500 came from real estate rentals and the balance from the earnings of the father in his stone engraving business and the earnings of the mother from her boarding-house.

This income probably placed the Gant family in the top 1 or 2 per cent of the families in that community. To visualize their economic position in today's terms that income would have to be multiplied by approximately 2½ to adjust for increases in the cost of living. This would mean an income of $20,000 or $25,000 per year after taxes, since there were no income taxes in 1912. In 1948 the top 5 per cent of American families had annual incomes of $10,000 or more after taxes, so it is reasonable to place the Gant family near the top of the income pyramid in 1912.

The members of the Gant family had huge appetites and the means to gratify them. The following quotation shows a presumably typical daily diet of this family about the year 1912:

In the morning they rose in a house pungent with breakfast cookery, and they sat at a smoking table loaded with brains and eggs, ham, hot biscuit, fried apples seething in their gummed syrups, honey, golden butter, fried steak, scalding coffee. Or there were stacked battercakes, rum-colored molasses, fragrant brown sausages, a bowl of wet cherries, plums, fat juicy bacon, jam. At the mid-day meal, they ate heavily; a huge hot roast of beef, fat buttered lima-beans, tender corn smoking on the cob, thick red slabs of sliced tomatoes, rough savory spinach, hot yellow corn-bread, flaky biscuits, a deep-dish peach and apple cobbler spiced with cinnamon, tender cabbage, deep glass dishes piled

[10] *Ibid.*, p. 145.

with preserved fruits—cherries, pears, peaches. At night they might eat fried steak, hot squares of grits fried in egg and butter, pork-chops, fish, young fried chicken.[11]

This account may appear extravagant in light of the fact that real income per capita in this period was about one-half what it is today, but statistics indicate that consumption of food was at a relatively high level in the earlier period. For example, consumption of beef per capita, which is a good index of good eating, was at an average annual rate of 67.6 pounds in the five year period, 1909–1913, compared to 62.9 pounds in the five-year period, 1947–1951. Similarly, the consumption of all meats per capita was 147.3 pounds in the earlier period and 145.2 pounds in the more recent period.[12]

Expenditure on food was not typical of the consumption pattern of the Gant family. The virtue of thrift was highly regarded and devoutly practiced and the propensity to save was high. Expenditures for items other than food were made in a penurious manner. There are many instances of this but the following incident of Ben's shoes is sufficient to illustrate the painful process of spending that was practiced.

Ben, an older brother of Eugene, bought an expensive pair of shoes. He discarded them in a rage when they hurt his feet. Eliza, the mother, gave them to Eugene who thought they were a bit tight but "He liked their clean strength, the good smell of leather. They were the best shoes he had ever had."

Ben saw that the shoes were a poor fit and objected to the mother's forcing them on Eugene. "I'll buy him a pair myself if you're too stingy to spend the money." But she had her way and Eugene painfully wore them for six weeks until one day Ben flung him down and took them off.

"It was several days before he began to walk with ease again. But his toes that had grown through boyhood straight and strong were pressed into a pulp, the bones gnarled, bent and twisted, the nails thick and dead.

" 'It does seem a pity to throw those good shoes away' ", sighed Eliza."[13]

ECONOMIC INDEPENDENCE

The boys were trained not to have any illusions concerning the superior economic position of the family and the parents stressed the individualistic rather than the solidary aspects of the family.

Both Gant and Eliza were fluent apologists for economic independence: all the boys had been sent out to earn money at a very early age.

'It teaches a boy to be independent and self-reliant,' said Gant feeling he had heard this somewhere before.

'Pshaw!' said Eliza. 'It won't do them a bit of harm. If they don't learn now they

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[11] Thomas Wolfe, *Look Homeward, Angel* (New York: Charles Scribner's Sons, 1929), p. 68.

[12] Bureau of Agricultural Economics data. Data are published in *Historical Statistics of the U. S., 1789–1945* (Washington, D. C.: 1949) and in *Statistical Abstract of the U. S.* (Washington, D. C.)

[13] *Look Homeward, Angel*, pp. 226–227.

won't do a stroke of work later on. Besides, they can earn their own pocket money.' This, undoubtedly, was a consideration of the greatest importance.[14]

Ben, through his own experience, knew the bad environment Eugene was thrust into by his newspaper delivery job and tried to warn the mother of this. But she dismissed this and said "You talk as if you thought we were Rich Folks." Ben replied, "You and the Old Man like to make out you're paupers, but you've a sock full of money." Ben realized he had lost the argument and concluded "there are people in this town without a fifth what we've got who get twice as much out of it. The rest of us have never had anything, but I don't want to see the kid made into a little tramp."

This incident is a microcosm of the larger theme of economic attainment and spiritual destruction. Eugene was not yet a man and had not acquired a realization of these forces. While it might appear that he was shoved into the new world of economic striving by a parental thrust from the nest, it is also evident that he was in part drawn there by the money-making motivation that he developed through his early reading.

> At the library he ravaged the shelves of boys' books, going unweariedly through the infinite monotony of the Algers— . . . —and dozens more. He gloated over the fat money-getting of these books (a motif in boys' books that has never been sufficiently recognized); all of the devices of fortune, the loose rail, the signalled train, the rich reward for heroism; or the full wallet found and restored to its owner; or the value of the supposedly worthless bonds; or the discovery of a rich patron in the city, sunk so deeply into his desires that he was never able to quench them.
>
> And all the details of money—the value of the estate usurped by the scoundrelly guardian and his caddish son, he feasted upon, reckoning up the amount of income, if it were not given, or if it were, dividing the annual sum into monthly and weekly portions, and dreaming on its purchasing power. His desires were not modest—no furtune under $250,000 satisfied him; the income of $100,000 at six per cent would pinch one, he felt from lavishness; and if the reward of virtue was only twenty thousand dollars, he felt bitter chagrin, reckoning life insecure, and comfort a present warmth.[15]

Wolfe devotes considerable space in his novels to speculation. He is not concerned with the normal operations of the speculator who pits his judgment against market opinion by trying to buy the undervalued and to sell the overvalued commodity. His interest is not in this kind of speculative operation but in the speculative mania that preceded the Great Depression. Although Wolfe deals with the security speculation of the period, he centers his description around a real estate boom that is carried to extreme lengths in his home town.

The speculative mania is a type of compulsive greed. It is compulsive because its victims are drawn irresistibly to a form of irrational behavior. They acquire wealth not to consume it but eventually to be consumed by it when the bubble bursts. The mother's boarding-house furnishes a good example of this. Despite all her hard work, the family acquired no extra benefits; in fact, by the process, they lost the fundamental things a home can yield.

[14] *Ibid.*, p. 112.
[15] *Ibid.*, p. 103.

If I hadn't tried to accumulate a little property none of you would have had a roof to call your own, for your papa, I can assure you, would have squandered everything.

'A roof to call our own' he yelled, with a crazy laugh. 'Good God, we haven't a bed to call our own. We haven't a room to call our own. We have not a quilt to call our own that might not be taken from us to warm the mob that rocks upon this porch and grumbles.'[16]

The mania led to a confusion of ends and means, for they could no longer answer the simple question: What is the land for?

As Nebraska talked to them in his simple, homely way, he spoke as a man of the earth for whom the future opened up serenely, an independent, stubborn man who knew what he wanted, a man who was firmly rooted, established, secure against calamity and want. He was completely detached from the fever of the times—from the fever of the boom mad town as well as from the larger fever of the nation. The others talked incessantly about land, but George saw that Nebraska Crane was the only one who still conceived of the land as a place on which to live, and of living on the land as a way of life.[17]

The greatest evil of this mania is the destruction of spiritual values. This is well dramatized by having the mother, who traditionally represents solicitude, tenderness and warmth of feeling, gripped by the mania which blocks the expression of these values. This conflict culminates in the death of Ben, the elder brother whom Eugene loved most. His death was caused by neglect, not only directly by delay in calling a doctor, but also indirectly through the years of his youth when he found none of the warmth or affection he so much needed in the home.

As he lay dying he did not want to see his mother and turned his head aside when she came into the room. Eugene, seeing the horror of this realization in her face as she bustled around the kitchen doing useless things, rushed to her and kissed her hand.

And Eliza, stripped suddenly of her pretenses, clung to him, burying her white face in his coat sleeve, weeping bitterly, helplessly, grievously, for the sad waste of the irrevocable years—the immortal hours of love that might never be relived, the great evil of forgetfullness and indifference that could never be righted now. Like a child she was grateful for his caress, and his heart twisted in him like a wild and broken thing, and he kept mumbling:

'It's all right! It's all right! It's all right!'—knowing that it was not, could never be, all right.[18]

Wolfe's attack on the speculative mania and the acquisitive instinct is not a broadside against the whole economic system. He does not disdain economic producers or material things by refuge in an Oriental dualism that finds all material things evil. His love of food is apparent. He expresses great admiration for the skill and strength of good workers—railroad men, truck drivers, printing

[16] *Ibid.*, p. 439.
[17] *You Can't Go Home Again*, p. 80.
[18] *Look Homeward, Angel*, pp. 544-545.

press operators, and others. Wolfe's economic ideas in this area are close to those of Veblen, who drew a sharp line between business men with their chief interest in making profits and engineers with their chief interest in providing material goods for society, a distinction often popularly referred to as one between making goods and making money.

THE WORLD THAT JACK BUILT

The second section of "You Can't Go Home Again" consisting of 12 chapters is entitled "The World that Jack Built" and was written as an analogy on the Great Depression.[19] In this episode a wealthy and talented couple, Mr. and Mrs. Frederick Jack, inhabitants of a luxurious and tasteful Park Avenue apartment (annual rental, $15,000) give a party to their circle of friends in October, 1929, a week before the big market crash. A small fire that starts down in the basement forces the evacuation of the building, and two elevator operators are killed by the fumes that pour up the elevator shafts. The residents of the building are unaware of this mishap.

Wolfe's treatment of the depression is mainly concerned with the effects of a depression on human values and behavior with some allusions to social and political matters but with few references to matters purely economic. The author does not establish causes for the depression or the subsequent recovery. Although Wolfe was writing in a period in which popular explanations of the cause of the depression were being made in terms of the under-consumption school of business cycle theory, there is nothing in the story about the start of the fire (the depression) that could be taken as an allusion to the under-consumptionist theory. The fire starts by blind chance down in the lower regions of the basement, an area completely unfamiliar to the residents of the building.

Once the fire is started the forces of the State in the persons of firemen and policemen take over control from the wealthy tenants (business leaders). This is illustrated by an incident in which a movie magnate tries to go back in the building to rescue some accounting records. He is brusquely turned down and he finds that the magic appeal of a reward or bribe of ten thousand dollars has completely lost its spell. As soon as the fire is out, however, firemen and policemen disappear and the old order is restored. The wealthy tenants return to their apartments and the maids immediately get to work tidying up.

The fire does not strike the persons or the possessions of the wealthy, but two of the workmen are killed. Policemen quietly remove the bodies so that the tenants will not be hurt even by a knowledge of the mishap. In these incidents several points regarding economic classes can be discerned. To Wolfe there are

[19] I am indebted to Mr. Edward C. Aswell, editor of this novel and other posthumous works of Wolfe, for this information. Mr. Aswell says "The whole long episode which Tom wrote about there, culminating in the fire, is a sort of allegory. Tom was really writing about the Great Depression, but he didn't want to do it in the usual terms, since the subject had been treated straight by so many other writers. I have never seen any comment which grasped that particular point, and I mention it to you because I think it may be right down your street." Letter to the writer dated April 15, 1952.

two classes and they are defined by working status, the workers and the wealthy, privileged class. Wolfe seems to entertain the idea that pervades socialist thought that the privileged class can only be explained by the existence and expropriation of some kind of surplus value, for when the protagonist contemplates the people at the party he concludes: "In the secret and entrenched resources of their lives they had all battened on the blood of common man, and wrung their profits from the sweat of slaves, like any common overseer of money and of privilege that ever lived."[20]

Wolfe raises the union question at this point, which, I believe, is the only occasion he dealt with it. In addition to the two elevator operators there was a third male worker in the building, a doorman, who was an enthusiastic worker for the union. The younger elevator operator was on friendly terms with everyone, including the doorman. He paid his union dues but was indifferent to the union. The older operator, however, was antagonistic to the union and the doorman, and expressed great respect for the rich tenants. The strong union man is the sole survivor of the three male workers. It is a strained interpretation to say that this is a symbol for the eventual triumph of the union or the workingclass. In view of the fact that two of the three male workers die in the fire, the safer interpretation is that friendliness or respect for the wealthy by the workers will not save them from their fate. They die because they are members of the weaker class, on which the burdens of the catastrophe fall.

Wolfe characterizes the era that ends with the stock market crash of 1929 as one built on mad manipulation and speculation. The word "Jack" can be viewed as a pun for money, so that the title becomes "The World that Money Built." Mr. Jack is a Wall Street financier with an office "in the clouds" who with ten thousand other similar men is responsible for the erection of the economic structure. Wolfe further describes them:

> It was a monstrous and ironic fact that the very men who had created this world in which every value was false and theatrical saw themselves, not as creatures tranced by fatal illusions, but rather as the most knowing, practical, and hard-headed men alive. They did not think of themselves as gamblers, obsessed by their own fictions of speculation, but as brilliant executives of great affairs who at every moment of the day 'had their fingers on the pulse of the nation.'[21]

This social order is honeycombed with privilege, so much so that when the financial leaders are filched by their servants on an outrageous scale they make no protest, recognizing that this is the law of their society. If the collapse that follows has any cause in Wolfe's view, it lies in the shaky structure built on the false and theatrical view of things held by these business leaders.

[20] *You Can't Go Home Again*, p. 261. That Wolfe's views were not completely acceptable to the Marxists of his time is partially explained by his critical comments on this page on the privileged who joined "in indignant protest—if only the issue had been fashionable!" and Mr. Hirsch, the powerful banker—"a liberal, 'a friend of Russia', a leader of advanced social opinion, a searching critic, indeed, of the very capitalist class to which he belonged."

[21] *Ibid.*, p. 191.

SPIRITUAL COLLECTIVIZATION AND STANDARDIZATION

Wolfe has another interesting analogy in Chapter 29 of *You Can't Go Home Again* which states his ideas on spiritual collectivization and standardization. This analogy is more obvious than the one on the depression and at times departs so far from the form of analogy as to become an outspoken tract on the evils of spiritual collectivization and standardization.

The term, spiritual collectivization, used here to describe the phenomena observed by Wolfe, is taken from Wilhelm Röpke, who further describes the process as follows:

> The place of a genuine integration created by genuine communities, which requires the ties of proximity, natural roots and the warmth of direct human relationships, has been taken by a pseudo-integration, created by the market, competition, central organization, by 'tenementing,' by ballot papers, police, laws, mass production, mass amusements, mass emotions and mass education, a pseudo-integration which reaches its climax in the collectivist state. The more tightly individuals are packed together and the greater their dependence on each other, the greater is their inner isolation and loneliness, and there is a direct connection between the grinding down of society into the sand-heap of myriads of individuals and the conglobation into unorganized, structureless and amorphous mass formations, which provide a luxuriant breeding ground for the mass instincts and mass emotions which are responsible for the befuddled and hysterical instability of present day society.[22]

Wolfe's story tells of a typical citizen of the civilization, the "common man," who registered at the Sir Francis Drake Hotel in Brooklyn as C. Green. Green jumped from the twelfth story of the hotel and smashed his brains out at the base of a lamp standard. The story of his life is told in contrast to that of Sir Francis Drake.

> No. Green—poor little Green—was not a man like Drake. He was just a cinder out of life—for the most part, a thinker of base thoughts, a creature of unsharpened, coarse perceptions. He was meager in the hips, he did not have much juice or salt in him. Drake gnawed the beef from juicy bones in taverns, drank tankards of brown ale, swore salty curses through his whiskers, wiped his mouth with the back of his hard hand, threw the beef bone to his dog, and pounded with his tankard for more ale. Green ate in cafeterias, prowled at midnight over coffee and a doughnut or a sugar-coated bun, went to the chop-suey joint on Saturday nights and swallowed chow mein, noodle soup, and rice. Green's mouth was mean and thin and common, it ran to looseness and a snarl; his skin was grey and harsh and dry; his eyes were dull and full of fear.[23]

Industrial civilization had reduced Green to a cipher as a man compared to Drake but there is a thin thread of identity still between them, in that they are both men. The name, C. Green, may be a pun on "sea-green" which provides a barely traceable identity with the adventurer and explorer of the high seas, Sir

[22] Wilhelm Röpke, *The Social Crisis of Our Time* (Chicago: University of Chicago Press, 1950), pp. 10-11. Röpke points out that this idea has gained currency largely through Ortega y Gasset's book, *The Revolt of the Masses*.

[23] *You Can't Go Home Again*, p. 469.

Francis Drake. Wolfe finds in the symbol of the act of suicide described below hope that the common man can free himself from the burdens of this industrial civilization.

Poor, shabby and corrupted cipher! Poor, nameless, and exploded atom! Poor little guy! He fills us Concentrated Blotters of the Universe with fear, with shame, with awe, with pity, and with terror—for we see ourselves in him. If he was a man with blood in him, then so are we! If he, in the midst of his always-driven life, could at last be driven to this final and defiant gesture of refusal to remain a Concentrated Blotter, then we, too, might be driven to a point of equal desperation! And there are other methods of defiance, other ways of ultimate refusal, other means of exercising one's last-remaining right of manhood—and some of them are no less terrifying to contemplate than this![24]

Wolfe's explanation of why Green, who has the potentiality of being another Sir Francis Drake, is reduced to a poor, corrupted cipher, is that this civilization has imposed a standardization on everything for the purpose of achieving mass production. Not only men but machines, as well as languages, feeling, opinion and everything else in the culture is pressed in a uniform mold of standardization.

It came from the same place where all our mob ways come from—from Standard Concentrated Production Units of America, No. 1. This is where all our streets, sidewalks, and lamp posts (like the one on which Green's brains are spattered) come from, . . .

where our soda water, slops and syrups, steamed spaghetti, ice cream, and pimento sandwiches come from, where our clothes, our hats (neat, standard stamps of grey), our faces (also stamps of grey, not always neat), our language, conversation, sentiments, feelings, and opinions come from. All these things are made for us by Standard Concentrated Production Units of America, No. 1.[25]

Wolfe's criticism of the de-humanizing aspects of industrial civilization is similar to that offered by "The Mystics," a term used by Gide and Rist to include Tolstoy, Ruskin and Carlyle.[26] These writers pointed to the ugliness of the industrial civilization developing under capitalism and the conflicts between laissez faire philosophy and Christian philosophy. In common with these writers Wolfe upholds a humanistic standard as opposed to the materialistic standard that emphasizes the primacy of wealth-seeking. Wolfe's standard is symbolized by Sir Francis Drake who is pictured as free to give full expression to all human desires, needs, and powers. In this respect he would give approval to Carlyle's statement: "Why, the four-footed worker has already got all that this two-handed one is clamouring for, and you say it is impossible."[27]

BUSINESS ORGANIZATION

Wolfe devotes one chapter of *You Can't Go Home Again* to a critical account of the sales organization of the Federal Weight, Scales, and Computing Com-

[24] *Ibid.*, p. 479.

[25] *Ibid.*, p. 476.

[26] Charles Gide and Charles Rist, *A History of Economic Doctrines* (New York: D. C. Heath & Co., Second English Edition, 1949), pp. 540–544.

[27] Quoted by Gide and Rist, *ibid.*, p. 543.

pany. The protagonist of the novel gets well acquainted with this company on a visit to his home town when he stays with his boyhood friend and next-door neighbor, Randy Shepperton, who is district agent for the company.

Wolfe's observations are made in September, 1929 and are directed toward the sales organization, which, as he observed, was the heart and soul of this company. He particularly attacks the development of high pressure salesmanship. The founder of the company had said: "I should like to see one of my machines in every store, shop, or business that needs one, and that can afford to pay for one." But as Mr. Merritt, Randy's supervisor, says: "that's old stuff now." The present head of the company, as a peroration to his customary address to the annual national convention, gestures toward an enormous map of the country and says: "There's your market! Go out and sell them!"

Following this command, the sales organization does not wait until someone needs a machine; it creates the need. To assure this accomplishment a quota system is set up for everyone in the organization. This is reviewed quarterly and the president passes an ultimatum down to the general manager if he fails to meet his quota: "Get out and hustle—or else!" This in turn is passed down the entire hierarchy. There is a Heaven and a Hell in this universe. Heaven is the Hundred Club, made up of those who achieve one hundred per cent of their quota for the year. This entitles them to "The Week of Play," a luxurious outing at the company's expense. The author, however, sees this as a tragic spectacle of business men, "most of them in their middle years, exhausted, overwrought, their nerves frayed down and stretched to the breaking point, met . . . for one brief, wild, gaudy week of riot."

If a man did not succeed in getting into Heaven, soon he would find himself in Hell—he would be banished from the organization. This might easily happen because quotas were continually raised. A man who sold eighty machines was expected to sell ninety next year.

The author's reaction to this system is summed up in an episode in which the protagonist, George, overhears a tongue-lashing that Mr. Merritt is administering to Randy for failing to meet his quota. George is sitting in the outer office and at first doesn't recognize the voice of Mr. Merritt, whom he had known only as a jovial extravert exuding good will for the company.

> But as he listened to that voice he began to tremble and grow white about the lips. For its very tone was a foul insult to human life, an ugly sneer whipped across the face of decent humanity, and as he realized that that voice, these words, were being used against his friend, he had a sudden blind feeling of murder in his heart.[28]

Wolfe's criticism of this system of salesmanship is that it offends human dignity. He sees in it a parallel to the building of the Pyramids in which each person is whipping those below him in rank. The end of greater production through greater sales does not justify the means, since the means involve indecent treatment of humanity.

The subsequent history of Randy is told later in the book. He is fired shortly

[28] *You Can't Go Home Again*, p. 137.

after the bank crash in the home town but is confident he can get another sales job. A job fails to materialize as the depression deepens and he and his sister live on their savings, then sell their house, and when that money is gone, they go to live with relatives. Finally Randy ends up on relief.

Wolfe says that Randy's tragedy was the essential tragedy of America—faith in the false values of salesmanship. "Salesmanship—that commercial brand of special pleading—that devoted servant of self-interest—that sworn enemy of truth." Wolfe equates this with business—"self-interest at its dollar value." "Kill that with truth, and what would be left," he asks. "A better way of life, perhaps, but it would not be built on business as we know it."[29]

Here again Wolfe seems to be drawing a distinction between making goods and making money. He thinks that it is rational for the founder of this company to make machines and want to sell them to everyone who needs one and can afford it, but that it is irrational to turn the process around and to force people through a system of penalties and rewards to force other people to buy what they do not need. This "creative salesmanship" is false and Wolfe sees the depression as having the value of killing such falsehoods.[30]

SOCIAL RESPONSIBILITY OF WOLFE

The modern novel can have important impacts on public policy, and society is justified in imposing some responsibilities upon the novelist. Social responsibility differs from social awareness or social consciousness, the latter terms referring to the recognition by the author of the relationships between his characters and society, while responsibility involves the relationships between the product of the novelist and his readers. Primarily, the novelist has the responsibility of giving society fair and honest treatment of its problems. This permits criticism of society but it does not permit reckless, unsubstantiated, and malicious attacks upon society.

In some respects the novelist can be held to the same standards of responsibility as the social scientist. When the novelist purports to be reporting on the social scene he should be required to see the facts as they are, to report them honestly, and not to tamper with the evidence. But this will cover only a small part of the work of the novelist. He is primarily interested in values and is concerned with the social scene only to the extent that it affects values. When the novelist makes a judgment on the effect of some aspect of the social system on values, the social scientist might offer helpful criticism. For example, if a novelist developed the idea that the free enterprise system was faulty in that it blocked the growth of affection in the family because it provided only a low standard of living, the economist could offer data showing the comparatively high living standards attained under such a system.

The novel is a work of art which is something more than a bundle of judgments

[29] *Ibid.*, p. 396.

[30] This death notice was premature. For a modern statement of the place of creative salesmanship in maintaining the upward sweep of national income and production see *Fortune*, May, June, and July 1952.

that are verifiable by scientific method. As a work of art, it cannot be criticized as if it were a list of scientific propositions presented in accordance with the methodology of the social sciences. This work of art may communicate something to its readers about the social system, and the nature of this communication is a matter of social responsibility of the novelist. He is responsible for the over-all effects of his art. Is his effect upon the minds of his readers an entirely negative one? Does he create a destructive or completely cynical frame of mind toward the solution of economic and social problems? It is such criteria that Professor Clark has in mind when he appraises a large part of current literature:

> Toward the economic system, current literature seems starkly and dangerously negative, presenting it as an arid waste of sordidly selfish and otherwise purposeless striving. Unsparing criticism is essential to a free system, but this somehow lacks sufficient two-sided understanding to be constructive in effect, and instead impresses one as the kind of criticism that is either impotent, or likely to throw the baby out with the bath. . . . I am not indicting it as a whole, merely registering what seems a widespread and dangerous tendency in its representation of things economic.[31]

The question of how well Wolfe met his social responsibilities as a novelist will be determined by an application of these criteria to his economic ideas. Is he negative, and if so, to what degree? The term, negative, may be used in several senses. In one sense it can be used to mean a failure to provide a positive program, and in this sense it should not form the basis for a charge that the novelist has failed to meet his social responsibilities, for a good novel does not purport to present a positive program and a practicable blueprint for social action.

In another sense negative may mean impotent, that is, lacking in intellectual or moral power or vigor. Professor Clark's statement carries this connotation. In this sense, literature that is esoteric, precious, and limited to the highly personal would be classified as negative. Wolfe does not fit into this category. He has a high degree of social consciousness; he is observant of social and economic matters and does not disdain the humble, every-day work of his fellowmen. In addition, Wolfe explicitly condemns this school of literature. With considerable bitterness, Wolfe attacks some of the "Intellectuals" he knew—Haythorpe, the aesthete, and Collingswood and Spurgeon, intellectuals who ended up as Communists. He also criticizes the fugitives and "futilitarians," giving an excellent portrait of Rickenbach Reade, one such literary fugitive, in his rural retreat.[32]

Are Wolfe's economic ideas negative in the sense that they imbue the reader with despair of social reforms? Or are they negative in the milder degree of having no application to his times? In neither sense can his economic ideas be classified as negative. Wolfe had his first book published in 1929 and wrote until his death in 1938. This period coincided with the Great Depression, during which there was a great ferment of economic ideas, notions, and panaceas. The underlying attitude of this period was critical of pre-depression institutions and ideas. Readers

[31] John Maurice Clark, "Economic Means—To What Ends?", *American Economic Review*, Part 2, Supplement, December 1950, p. 49.

[32] *You Can't Go Home Again*, Chap. 36.

who were influenced by Wolfe's ideas would find nothing in them that would tend to block acceptance of the many changes then occurring in thought and institutions. On the contrary, Wolfe's influence probably aided popular acceptance of many novel enactments under the New Deal.

Wolfe's denunciation of speculative excesses and the unsound financial structure built by the leaders of finance in the Twenties encouraged and supported a public attitude that demanded the economic reforms embraced in the Securities Act of 1933, the Banking Acts of 1933 and 1935, the Securities and Exchange Act of 1934, and the Public Utility Holding Company Act of 1935.

The majority of the voting public that came to feel during the depression that our individualistic political philosophy had been pushed too far and that the times called for social legislation, such as the Social Security Act of 1935, could find support in Wolfe's thesis that the enemy was "single selfishness and compulsive greed." Wolfe's compassion for the sufferings of the poor in the depression was a persuasion on the side of those who advocated an active role by the government in relief of the unemployed.

Wolfe's work can be described as negative in two senses. In the first sense his writing is negative or inadequate on what Wolfe would call the spiritual rather than the economic side. The chief fault he found with the social system was that it gave primacy to economic rather than spiritual fulfillment, but he fails to convey his meaning of spiritual fulfillment.

Wolfe does not submit the matter of spiritual fulfillment to a profound intellectual examination. He seems content to leave it in terms of a nineteenth century statement of the Law of Progress.

> And the essence of all faith, it seems to me, for such a man as I, the essence of religion of people of my belief, is that man's life can be, and will be, better; that man's greatest enemies, in the forms in which they now exist—the forms we see on every hand of fear, hatred, slavery, cruelty, poverty, and need—can be conquered and destroyed.[33]

He excuses his failure to think through the problems of spiritual fulfillment because his nature is opposed to the finality of formulation, but the result is that he ends up in sentimentality. At the end of the last book he speaks of a premonition of death and a voice telling him:

> To lose the earth you know, for greater knowing; to lose the life you have, for greater life; to leave the friends you loved, for greater loving; to find a land more kind than home, more large than earth. . . .[34]

Whether one reads this as a premonition of physical or spiritual death, it is sentimental and pietistic because it is unrelated to the life and thought which he has built into his novels. It is tacked on to the finished work and does not flow from the materials he used.

Wolfe fails not only to think through the matter of spiritual fulfillment but also to portray a life in his characters that carries spiritual conviction. His protagonists largely feed gross appetites and pursue materialistic goals. Although

[33] *Ibid.*, p. 738. [34] *Ibid.*, p. 743.

none rises to any great spiritual level, there is an evident spiritual growth that perhaps was cut short by the death of the author at the relatively young age of thirty seven. At times the struggle with the Ego seems strongly motivated by unworthy interests of writing more novels and gaining more fame in order to revenge himself upon his critics.

The spiritual faults of protagonists and author affect the economic observations and ideas of the novels. To discharge his social responsibilities, the novelist must be an honest reporter of the social scene. Wolfe achieves a high degree of freedom from the bias of his social class and economic interests in reporting the facts of the social scene of his time, but toward some of the persons involved there is evident a quality of resentment or even malice. This is directed toward persons of superior intellectual or economic position and sometimes toward classes of people, such as the wealthier Jews or urban Irishmen, who had been conditioned by an environment that was strange to the author. In many respects Wolfe failed to outgrow the backwoods culture of the western Carolinas of his youth.[35]

Finally Wolfe is negative in the sense of the school of modern criticism that holds that the modern artist lives in protest against his society. This school finds Western society dominated by a concern with the exterior life manifested by a striving for things and by a neglect of the interior life with which the artist deals. Malraux holds that true art cannot flourish in our present society because its members are not dedicated to values for which they would suffer poverty, derision, and death.[36] In this view the mass of society goes one way and the artist, another.

Wolfe reflects this viewpoint. He describes the spiritual emptiness of the American people in the midst of their great material progress, and from this he argues for fundamental reform of society that would go far beyond the kind of reform effectuated by the New Deal. This fundamental reform would develop a society dedicated to values to which the artist could give complete devotion. The artist would be at "home" in this society, a yearning suggested by Wolfe in the two titles, *Look Homeward, Angel* and *You Can't Go Home Again.*

[35] After this paragraph was written, Mr. Edward C. Aswell, Wolfe's editor, told me details of Wolfe's life which show that he came to recognize that he had a prejudice against Jews and that he made strenuous and successful efforts to uproot it. Fairness to Wolfe requires a recognition of this personal reformation which would have been reflected in his subsequent work if he had lived.

[36] Andre Malraux, "Art, Popular Art, and the Illusion of the Folk," *Partisan Review*, September-October 1951, p. 495. Lewis Mumford is concerned with this problem and much of his writing is devoted to the attempt to solve the conflict between art and society. See Lewis Mumford, *The Conduct of Life* (New York: Harcourt, Brace, 1951).

THE EFFECTS OF INDUSTRY-MIX AND WAGE RATES ON PER CAPITA INCOME IN KENTUCKY*

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Kentucky per capita income payments to individuals, as reported by the Department of Commerce, were $911 in 1950.[1] After interstate situs adjustments, the per capita income payments were $939. And over 60 per cent of the total is income from wages and salaries. This proportion is somewhat less than the contribution of wages and salaries to the national per capita income payments (65 per cent in 1950). The analysis here will be devoted wholly to the type of industry and average wage. The percentage of total income represented by wages and salaries will not be considered, but the relative amounts received by industrial employees, farm proprietors, and other receiver groups are no doubt important factors in explaining per capita income levels.[2]

In the first part of this analysis only the wages and salaries of employees covered by the state unemployment insurance laws will be considered. Covered wages and salaries in Kentucky in 1950 amounted to 65 per cent of all wages and salaries earned in the state.[3] For the nation as a whole, covered wages and salaries were 72 per cent of the total.[4]

If all the workers covered by the Kentucky Unemployment Insurance law in 1950 had received annual wages equal to the average for all workers covered by unemployment compensation laws in the nation, average covered income in Kentucky would have been about $417 per year higher for the average worker and Kentucky per capita income about $55 higher. Covered wages and salaries in Kentucky, if employees had been paid at the national average compensation rate, would have been $1,277.1 million or $163.2 million more than they actually were, as shown in Table 1. This difference divided by the state's population is $55.[5] The problem here is to determine whether this $55 per capita is the result

* In this paper there is heavy reliance on the method of analysis used by Frank A. Hanna, "Contribution of Manufacturing Wages to Regional Differences in Per Capita Income," *Review of Economics and Statistics*, February 1951, pp. 18-28. See also Charles A. R. Wardwell, "Regional Trends in the United States Economy," *A Supplement to the Survey of Current Business* (Washington: Government Printing Office, 1951), pp. 31-37.

[1] Robert E. Graham, Jr., "State Income Payments in 1950," *Survey of Current Business*, August 1951, p. 20.

[2] John L. Fulmer, "Factors Influencing State Per Capita Income Differentials," *Southern Economic Journal*, January 1950, pp. 259-278.

[3] Unpublished data on income and average employment, Kentucky Department of Economic Security, Frankfort, Kentucky.

[4] "1950 Average Employment and Total Wages," *Statistical Supplement to Labor Market and Employment Security*, United States Department of Labor (August, 1951), Table 2.

[5] U. S. Bureau of the Census, "Number of Inhabitants: Kentucky," *United States Census of Population: 1950*, Report P-A17, preprint of Vol. 1, Chap. 1 (Washington: Government Printing Office, 1951), p. 4.

of differences in industry-mix (composition of industry in terms of number of workers and average wage), differences in average annual wages in the particular industries, or both.

TABLE 1

The Effect of Covered Wages on Per Capita Income in Kentucky, 1950

	AVERAGE ANNUAL COVERED WAGE	AVERAGE COVERED EMPLOYMENT IN KY.[a]	COL. 1 × Col. 2 (MILLIONS)
United States[b]	$3,136		$1,227.1
Kentucky[a]	2,719	391,284	1,063.9
Difference in Column 3			$ 163.2

[a] Unpublished data on income and average employment, Kentucky Department of Economic Security, Frankfort, Kentucky.

[b] "1950 Average Employment and Total Wages," *Statistical Supplement to Labor Market and Employment Security*, United States Department of Labor (August, 1951), Table 3.

TABLE 2

Average Wage and Percentage of Total Covered Employment by Major Industry in the United States and Kentucky

INDUSTRY	PERCENTAGE DISTRIBUTION OF EMPLOYMENT		AVERAGE ANNUAL WAGE	
	U.S.[a]	Ky.[b]	U.S.[a]	Ky.[b]
All covered industries	100.0	100.0	$3,136	$2,719
Mining	2.7	15.6	3,471	2,911
Construction	6.3	6.3	3,496	2,972
Manufacturing	44.9	35.3	3,313	2,933
Public utilities and transportation	7.6	7.0	3,273	2,862
Trade	24.9	24.8	2,867	2,384
Finance	4.7	3.2	3,201	2,843
Service	8.6	7.5	2,483	2,037

[a] "1950 Average Employment and Total Wages," *Statistical Supplement to Labor Market and Employment Security*, United States Department of Labor (August, 1951), Table 4.

[b] Unpublished data on income and average employment, Kentucky Department of Economic Security, Frankfort, Kentucky.

I

Shown in Table 2 are the average annual wages in covered employment in the United States and Kentucky by major industry group. Also shown is the percentage distribution of covered employment. Covered wages and salaries in agriculture and miscellaneous industries are omitted because they comprise such a very small percentage of the total. There are considerable differences in the average wage by industry between the United States and Kentucky, and in each instance the Kentucky average wage is lower. But a dissimilar industrial makeup is also apparent, and one must take account of both average wages and

type of industry in order to determine the net effect of covered employment on per capita income.

As stated before, the term industry-mix is used to denote the composition of industrial activity in terms of number of workers by industry and average wage. To determine whether or not the industry-mix in Kentucky is favorable or unfavorable in relation to the industry-mix of the United States as a whole the number of covered workers by industry in Kentucky and the average annual wage in the nation must be the standards. If, for example, all the covered employment in Kentucky were in mining, manufacturing, public utilities and transportation, or finance, or any combination of these, the results would be a favorable industry-mix because all of these industries have a higher average country-wide wage than all covered industries for the nation combined. Similarly, if all the covered employment in Kentucky were in trade and service, the industry-mix would be unfavorable. Differences in wage rates within the state do not enter into these computations. In Table 3 the industry-mix for Kentucky is computed. The average covered employment in the state is multiplied by the average covered wage in the nation for all covered employment and for each of the major industry groups separately. The sum of the products for the major industry groups is greater than the product of total covered employment and the annual average wage of all covered employees in the nation. Kentucky, therefore, has a favorable industry-mix.

TABLE 3

Industry-Mix by Major Industry Group in Kentucky, 1950

INDUSTRY	(1) AVERAGE COVERED EMPLOYMENT IN KENTUCKY	(2) AVERAGE ANNUAL WAGE IN THE UNITED STATES	(3) COL. 1 × COL. 2 (THOUSANDS)
All covered industry[c]	391,284	$3,136	$1,227,067
Mining	61,049	$3,471	$ 211,901
Construction	24,747	3,496	86,515
Manufacturing	138,120	3,313	457,592
Public utilities and transportation	27,446	3,273	89,831
Trade	96,855	2,867	277,683
Finance	12,673	3,201	40,566
Service	29,452	2,483	73,129
Total, Column 3[c]			$1,239,232

[a] Unpublished data on income and average employment, Kentucky Department of Economic Security, Frankfort, Kentucky.

[b] "1950 Average Employment and Total Wages," *Statistical Supplement to Labor Market and Employment Security*, United States Department of Labor (August, 1951), Table 4.

[c] Includes a small amount of covered wages and salaries in agriculture and miscellaneous industries.

The amount of favorable industry-mix in the covered industries in Kentucky can be measured by the following method: Subtract the product of all covered

employment in Kentucky and average covered wage in the United States from the total of column 3 and divide by the former ($1,239,232,000 minus $1,227,067,-000 divided by $1,227,067,000). The result is a favorable industry-mix in Kentucky of 1 per cent. Kentucky, therefore, has relatively more high wage industries than the nation; and this can readily be seen by referring again to Table 2. The three industries with the highest average wage are mining, construction,

TABLE 4

Computing the Industry-Mix in Trade for Kentucky, 1950

INDUSTRY	(1) AVERAGE ANNUAL WAGE IN THE UNITED STATES[a]	(2) AVERAGE COVERED EMPLOYMENT IN KENTUCKY[b]	(3) COL. 1 X COL. 2 (THOUSANDS)
All Trade	$2,867	96,855	$277,683
Full-service and limited function wholesalers	$3,634	14,889	$ 54,107
Other wholesale distributors	3,976	9,499	37,768
Wholesale and retail trade combined, n.e.c.	3,306	5,365	17,737
Retail general merchandise	2,129	15,363	32,708
Retail food and liquor stores	2,626	10,044	26,376
Retail automotive	3,705	9,885	36,624
Retail apparel and accessories	3,423	5,378	13,031
Retail trade, n.e.c.	2,716	13,094	35,563
Eating and drinking places	1,768	11,645	20,588
Retail filling stations	2,321	1,693	3,929
Total Column 3[c]			$278,431

[a] "1950 Average Employment and Total Wages," *Statistical Supplement to Labor Market and Employment Security*, United States Department of Labor (August, 1951), Table 4.

[b] Unpublished data on income and average employment, Kentucky Department of Economic Security, Frankfort, Kentucky.

[c] Since the total of column 3 is greater than the product of all covered employment in trade and average annual wage for the nation there is a favorable industry-mix in trade in Kentucky. By applying the mathematical procedure explained on pages 56–57 this favorable industry-mix in trade is 0.3 per cent.

and manufacturing. In these three groups Kentucky has 57.2 per cent of all covered employment while in the whole country only 53.9 per cent are in the same three industries. This showing, along with the average annual wages in the nation, account for the favorable industry-mix in Kentucky.

II

The analysis, however, should be carried further. In the foregoing discussion all covered employment was taken as a unit with major industries as sub-groups. Another, and probably better, method of analysis would be to inspect each of these major industry groups separately. How much of the $380 difference in average wages in manufacturing, for example, can be accounted for by differences in wages and how much by differences in the type of manufacturing? To

find the answer manufacturing must be broken down into type of activity—machinery, chemicals, tobacco, etc.—and analyzed in the same way covered employment as a whole has been examined. And so with all other major industries. For illustration an analysis of the industry-mix in trade is shown in Table 4.

Analysis of each of the seven major industries in a similar manner reveals that there is a favorable industry-mix in trade, finance, construction, and public

TABLE 5

Differences in Covered Annual Wages by Major Industry Component in Kentucky, 1950

Industry	(1) Average Covered Employment in Kentucky	(2) Total Wages for Year (Thousands)	(3) Amount Computed from: National Average (Thousands)	(4) Amount Computed from: Industry-Mix (Thousands)	(5) Percentage Difference Attributable to: Industry-Mix	(6) Percentage Difference Attributable to: Average Wages
All covered industry[a]	391,284	$1,063,887	$1,227,067	$1,239,232	+1.0	−14.1
Mining	61,049	$ 177,688	$ 211,901	$ 202,711	−4.3	−12.3
Construction	24,747	73,549	86,515	86,956	+0.5	−15.4
Manufacturing	138,120	405,093	457,592	435,487	−4.8	−7.0
Public utilities and transportation	27,446	78,550	89,831	90,238	+0.5	−13.0
Trade	96,855	231,354	277,683	278,431	+0.3	−16.9
Finance	12,673	36,019	40,566	40,596	+0.1	−11.3
Service	29,452	59,992	73,129	70,141	−4.1	−14.5

[a] Covered wages and employment in agriculture and miscellaneous are included in the totals.

Column 1, average employment, and column 2, total wages, are from unpublished data on income and average employment, Kentucky Department of Economic Security, Frankfort, Kentucky.

Column 3 is the product of average employment and average national wage in Table 1.

Column 4 shows amounts computed from the industry-mix in each component.

Column 5 is column 4 minus column 3 divided by column 3.

Column 6 is column 2 minus column 4 divided by column 4.

utilities and transportation, and an unfavorable industry-mix in mining, manufacturing, and service. Column 5 in Table 5 shows the industry-mix differentials for each of the major industry groups.

It was pointed out earlier that per capita income in Kentucky would be about $55 greater if all employees working in covered employment were compensated at the average wage for all covered employees in the nation. In spite of the fact that Kentucky, in total covered employment, has a favorable industry-mix—a relatively large percentage of workers in industries that pay the highest annual wage—the unfavorable industry-mix in mining, manufacturing, and service results in a net negative effect on average annual wages. This total negative effect—the total of column 3 subtracted from the total of column 4 (Table 5)—is $32.7 million. In Table 6 the net contribution of each major industry group to this total amount attributable to the industry-mix difference is shown.

The per capita effect of the unfavorable industry-mix in mining, manufac-

turing, and service, which is only partly offset by the favorable industry-mix in the other four groups, can now be easily calculated. Dividing $32,657,000 by the population of Kentucky,[6] an estimate of the effect of industry-mix on Kentucky's per capita income is obtained. This amount, $11, is about 20 per cent of the total difference of $55 that is caused by lower wages and industry-mix combined. However, the relative effect on per capita income of average annual wages in the major industry groups is different from the effect of industry-mix. Whereas manufacturing has the most unfavorable industry-mix of the major industries, the average annual wage in this industry is nearer the national average, percentagewise, than the average wage in any other industry.[7]

TABLE 6

Differences in Industry Income Attributable to Industry-Mix in Kentucky, 1950

INDUSTRY	DIFFERENCE IN AMOUNTS COMPUTED FROM NATIONAL AVERAGE WAGE AND COVERED EMPLOYMENT IN KENTUCKY[a] (THOUSANDS)
Mining	$ −9,190
Construction	441
Manufacturing	−22,105
Public utilities and transportation	407
Trade	748
Finance	30
Service	−2,988
Total	$−32,657

[a] Column 3 subtracted from column 4, Table 5.

From this analysis it can be concluded with reasonable certainty that differences in wages are about four times as important as differences in industry-mix in accounting for the lower than average yearly income per employee in covered industries in Kentucky. Covered wages and salaries, however, amount to only about 65 per cent of all wages and salaries earned in the state. In order to project the analysis to cover all wage earners in the state and to measure the impact of all wage and salary incomes on per capita income, the earnings of noncovered workers must be included. The assumption may be made that noncovered employees, whose wage and salary income was $581 million in 1950, are paid below the country-wide average to the same extent as covered employees. In that event they would have received 15.3 per cent more if they had been paid at the national average for their efforts.[8] It may be assumed, too, that about 20 per cent of this wage differential is a result of an unfavorable industry-mix, while 80 per cent is the result of lower than average wages. These assumptions are subject to some error, but too little data are available for precise calculations.

[6] *Ibid.*

[7] See column 6, Table 5.

[8] See Table 1.

This $581 million in noncovered wages and salaries, therefore, is $88.9 million less than it would be if Kentucky workers received wages equal to the average for the nation. On a per capita basis this amounts to $30. The net difference in per capita income between the United States as a whole and Kentucky as a result of industry-mix and wage rates, then, is $85. If the industry-mix and wage rate percentages (20 per cent and 80 per cent respectively) are applied to this difference we can conclude that Kentucky per capita income is lower than the national per capita income by $17 as a result of an unfavorable industry-mix and by $68 because of differences in average annual wages in the same industries.

III

The industry-mix and wage-rate data for the state as a whole should be of interest, and perhaps of value, to many people. But regional economic analysis can be much more meaningful as the area studied becomes smaller. In 1950 nearly 37 per cent of all the covered employees in the state worked in Jefferson County and received 42 per cent of the wages and salaries paid to workers in covered employment.[9] It is obvious, then, that from the state data one cannot bring the economic picture of Jefferson County, or any other county, into focus.

The estimated per capita income in Jefferson County for 1950 was $1,649.[10] This compares favorably with the estimated state per capita income of $959 (after reflecting interstate situs adjustments) and with the national per capita income of $1,436.[11] Covered wages and salaries in Jefferson County comprised about half of the personal income for the county in 1950, after situs adjustments and social insurance deductions. Net wage and salary payments amounted to 72 per cent of all individual income for the year.

Realizing the added value of an analysis of income for a single county as compared to a state, it must also be recognized that small area analysis is much more difficult and is quite possibly more subject to error. Adjustments for place of residence, for example, may be an important factor; but to bring this into an analysis of industry-mix and wage rates is almost impossible. In Table 7, which shows Jefferson and "all other Kentucky counties" as a group, no prior adjustments have been made.

In Jefferson County, as in Kentucky as a whole, the percentage difference between average annual wages in the county and in the nation that may be attributable to differences in industry-mix are much smaller than the differences attributable to wage rates. There is remarkable balance in Jefferson County industries,[12] assuming the national industry-mix to be perfect, even though the average annual wages, with the exception of manufacturing and public utilities and transportation, do not compare favorably with the average annual wages

[9] Kentucky Department of Economic Security, *op. cit.*

[10] Unpublished 1950 county income estimates prepared by the Bureau of Business Research, University of Kentucky, Lexington, Kentucky.

[11] Robert E. Graham, Jr., *op. cit.*

[12] See also "The Louisville Labor Market and its Bedrock of Industrial Balance," *Statistical Journal of Economic Security in Kentucky*, April 1952, pp. 1-6.

for the country as a whole. By using the same procedure employed in conjunction with Table 6 in finding the effect of industry-mix and average annual wages in covered employment on per capita income we find that Jefferson County per

TABLE 7

Differences in Covered Annual Wages by Major Industry Component in Jefferson County and in All Other Counties in Kentucky, 1950

INDUSTRY	(1) AVERAGE COVERED EMPLOYMENT IN KENTUCKY	(2) TOTAL WAGES FOR YEAR (THOUSANDS)	(3) AMOUNT COMPUTED FROM	(4)	(5) PERCENTAGE DIFFERENCE ATTRIBUTABLE TO	(6)
			National Average (Thousands)	Industry-Mix (Thousands)	Industry-Mix	Average Wages
Jefferson County[a]	144,464	$442,349	$453,039	$452,118	−.2	−2.2
Construction	7,682	$ 24,613	$ 26,856	$ 27,022	+.6	−8.9
Manufacturing	69,025	231,099	228,680	226,354	−1.0	+2.1
Public utilities and transportation	10,859	34,752	35,541	35,397	−.4	−1.8
Trade	37,458	103,119	107,392	108,829	+1.3	−5.2
Finance	7,002	20,164	22,413	22,741	+1.5	−11.3
Service	12,051	27,237	29,923	29,426	−1.7	−7.4
All other counties[b]	247,151	$622,759	$775,177	$788,263	+1.7	−21.0
Mining[c]	61,049	$177,688	$211,901	$202,711	−4.3	−12.3
Construction	17,065	48,936	59,659	59,934	+.5	−18.4
Manufacturing	69,095	173,994	228,912	209,133	−8.6	−16.8
Public utilities and transportation	16,587	43,798	54,290	54,841	+1.0	−20.3
Trade	50,397	128,235	170,291	169,602	−.4	−24.4
Finance	5,671	15,855	18,153	17,855	−1.6	−11.2
Service	17,401	32,755	43,206	40,715	−5.8	−19.6

[a] Covered wages and employment in agriculture, mining, and miscellaneous industries are included in the Jefferson County totals and in the computations.

[b] Covered wages and employment in agriculture and miscellaneous industries are included in the "all other counties" totals and in the computations.

[c] Includes a small amount of mining in Jefferson County.

Column 1, average employment, and column 2, total wages, are from unpublished data on income and average employment, Kentucky Department of Economic Security, Frankfort, Kentucky.

Column 3 is the product of average employment and average national wage in Table 1.

Column 4 shows amounts computed from the industry-mix in each component.

Column 5 is column 4 minus column 3 divided by column 3.

Column 6 is column 2 minus column 4 divided by column 4.

capita income would have been $2.00 higher if the industry-mix were identical with that for the nation, and $17 higher still if all covered employees had received annual wages comparable to the national average for the industry in which they

were employed.[13] Since covered wages and salaries were about 70 per cent of all wage and salary income for the county in 1950, it may be estimated, again using the technique previously employed for the state, that per capita income in

TABLE 8

Differences in Covered Annual Wages by Major Industry Component in Two Kentucky Counties, 1950

INDUSTRY	(1) AVERAGE COVERED EMPLOYMENT IN KENTUCKY	(2) TOTAL WAGES FOR YEAR (THOUSANDS)	(3) AMOUNT COMPUTED FROM	(4)	(5) PERCENTAGE DIFFERENCE ATTRIBUTABLE TO	(6)
			National Average (Thousands)	Industry-Mix (Thousands)	Industry-Mix	Average Wages
Total, County "A"	4,803	$13,868	$15,065	$16,250	+7.9	−14.7
Mining	3,946	$12,157	$13,697	$13,092	−4.4	−7.1
Manufacturing	182	362	603	511	−15.3	−29.2
Trade	464	908	1,330	1,228	−7.7	−26.1
Service	100	153	248	222	−10.5	−31.1
All Other[a]	111	288	372	360	−3.2	−20.0
Total, County "B"	2,914	$ 5,991	$ 9,135	$ 8,958	−1.9	−33.1
Construction	186	$ 466	$ 650	$ 657	+1.1	−29.1
Manufacturing	967	1,776	3,204	2,592	−19.1	−31.5
Public utilities and transportation	269	684	880	883	.0	−22.5
Trade	1,136	2,404	3,257	3,185	−2.2	−24.5
Service	258	386	641	576	−10.1	−33.0
All Other[b]	98	275	326	319	−2.1	−13.8

[a] Includes construction, public utilities and transportation, and finance.

[b] Includes mining and finance.

Column 1, average employment, and column 2, total wages, are from unpublished data on income and average employment, Kentucky Department of Economic Security, Frankfort, Kentucky.

Column 3 is the product of average employment and average national wage in Table 1.

Column 4 shows amounts computed from the industry-mix in each component.

Column 5 is column 4 minus column 3 divided by column 3.

Column 6 is column 2 minus column 4 divided by column 4.

Jefferson County would have been about $27 higher if there had been no difference in industry-mix or in wage rates as compared with United States averages.

The half of Table 7 reflecting counties other than Jefferson presents a quite different picture—a picture of less uniformity in industry-mix and of wages that are distinctly below the national average. The combined effect of industry-mix and of low wage rates on the per capita income of Kentucky, exclusive of Jeffer-

[13] These figures also take into account a small situs adjustment.

son County, amounts to $117.[14] If the industry-mix and average annual wages of all workers, covered and noncovered, outside Jefferson County were on a par with the nation the 1950 per capita income in these 119 counties, as a group, would have been about $940 instead of $823.[15]

To complete the analysis, and to show further the contrast between different areas within the state, the industry and wage detail of two other counties are given in Table 8. County "A" is one of the Kentucky's many coal mining counties (it is considered a union county), and in 1950 it had a per capita income well below that of the state.[16] County "B" is a better than average agricultural county with some industrial development and in 1950 it had a per capita income considerably above that of the state.[17] In all probability they are fairly representative of these two types of county economic structures, and the tabulation reveals still further the extremes that exist in both industry-mix and average wages. These extremes that to varying degrees probably exist in most of the state's counties are indicative of the value of county data in an analysis of the state's economy.

[14] The computations show the effect of industry-mix to be $24 and the effect of wage rates to be $93.

[15] Unpublished 1950 county income estimates prepared by the Bureau of Business Research, University of Kentucky, Lexington, Kentucky.

[16] *Ibid.* [17] *Ibid.*

TRADE UNIONS AND FULL EMPLOYMENT

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INTRODUCTION

One of the more remarkable features of the "Keynesian Revolution" has been evidenced in the rapidity with which full employment has become the standard of social well-being. The almost-universal unity of economists ideologically ranging from Hayek to Hansen that "full" or "high" employment is a social responsibility has been matched by equal interest by various governments, culminating, for example, in the British, Canadian and Australian Papers and the Employment Act of 1946.[1] That many of these governmental policies, particularly the American version, were considerably short of a full employment *guarantee* does not mitigate to any extent the fact that unemployment in any significant degree would appear to no longer be consciously countenanced by political governments. If such a guarantee is even closely approximated, and policy is implemented to bring an economy to such "full" employment, the problems of unemployment are quickly replaced by the possibility of an inflationary potential. This paper will be concerned in particular with two of the major questions potentially faced in a full employment economy—(a) is a full employment guarantee compatible with a stable price level, and (b) within such an economy, what is the impact of the union on the price level.

It is recognized that the degree of guarantee can have a considerably varying influence in relation to the above questions—certainly the Murray Full Employment Bill of 1945 contained a stronger guarantee than did its resultant legislation. However, for the purpose of simplicity, it will be assumed that some form of *effective* guarantee has been promulgated, perhaps approximating Beveridge's definition, "always having more vacant jobs than employed men . . . at fair wages, of such a kind, and so located that the unemployed men can reasonably be expected to take them . . . the labour market should always be a seller's market rather than a buyer's market."[2]

A FULL EMPLOYMENT GUARANTEE AND THE PRICE LEVEL

Let us premise as an initial situation an economy that has progressively moved from underemployment to a position of full employment as defined above. As an additional premise, it will be assumed that such movement occurred in an orderly fashion, dropping the important possibility that "bottlenecks" of some

[1] *Employment Policy*, Cmd. 6527, London (May, 1944); *Paper on Employment and Income*, Edmund Cloutier, Printer to the King's Most Excellent Majesty, Ottawa, (April, 1945); *Full Employment in Australia*, reprinted in Hearings on Senate 380, Seventy-ninth Congress, 1st Session, Washington, D. C.; *Employment Act of 1946*, Public 304, 79th Congress, Washington, D. C.

[2] William H. Beveridge, *Full Employment in a Free Society* (New York: W. W. Norton), 1945, p. 18.

form had been evidenced prior to full employment which might have caused premature rises in the price level. If this full employment ceiling has been explicitly set forth as governmental policy, what can be said of the future reaction of the price level?

There appears a *prima facie* case that the mere existence of a high level of employment usually places upward pressure on the price level, even in the face of the (doubtful) assumption that whatever monetary-fiscal policy that had been utilized to bring about full employment had been fortuitously *tapered* perfectly. It appears well established that wage rates and administered prices are characterized rather generally by rigidity downward,[3] and, when shifts occur in the pattern of demand, there appears a necessary bias toward a rise in the price level *in the face of a full employment guarantee.* With a fear of recession, the claimants of the national income might be afraid of going too far. But once the fear of recession (fear of curtailed demand) is removed, any demand for increased money wages or higher profit margins probably will lead to higher prices (with the possibility that price expectations will generate still further rises). In effect, a situation is represented in which the sum of the claims to the national income is in excess of the (real) national income produced, and the existing price level is not compatible with all of the claims in money terms. Professor Reder suggests that this "monetary veil" might be lifted by bargaining in real terms, but concludes that such procedure "might well bring about a wave of bitter labor conflicts far more difficult to settle than any we have experienced hitherto; for the safety valve of product price adjustments will have been removed."[4]

Of course the rise in prices would not go unrecognized by the government, and appropriate monetary and fiscal policy would likely be undertaken to counteract such tendencies. Credit restriction by the Board of Governors would appear to be a strong anti-inflationary device; but, in implementing such a policy, the Federal Reserve authorities would be faced with the possibility of overly-reducing effective demand, consequently giving rise to unemployment (not to mention the undesirable repercussions in the government bond market). Approximately the same reasoning holds for the utilization of fiscal policy designed to curb inflation. A certain deterrent is automatic through built-in flexibility, and the addition of various discretionary policies would appear to provide enough potency to reduce any degree of inflationary forces, but in each case serious questions are raised as to compatibility of such action with a policy of full employment and/or other social-political goals.[5]

[3] Cf. J. M. Clark, "Criteria of Sound Wage Adjustment, with Emphasis on the Question of Inflationary Effects" in *The Impact of the Union*, D. M. Wright (Ed.), (New York: Harcourt, Brace and Company), 1951, p. 21, "Downward flexibility does exist, but it operates within limits which seem to be growing narrower. In manufacturing, price flexibility cannot go very far unless wages are also flexible; and the resistance of wages to reduction seems to be getting close to an absolute and accepted veto."

[4] M. W. Reder, "The Theoretical Problems of a National Wage-Price Policy," *The Canadian Journal of Economics and Political Science*, XIV (February, 1948), p. 52.

[5] Cf. Henry M. Oliver, "Fiscal Policy, Employment, and the Price Level" in *Fiscal Policies and the American Economy*, Kenyon E. Poole (Ed.), (New York: Prentice-Hall), 1951, p. 140.

Once inflation gets underway, it creates many interest groups favoring its continuance. When such interest groups are implicitly or explicitly combined into powerful pressure groups, their ability to affect Federal Reserve and/or Treasury action is sizable. In theory, the monetary-fiscal authorities represent the "public," and are charged with maximizing the real national income, subject to the limitations imposed by their responsibility to the holders of money and claims (e.g., the fixed income group, speaking generally).[6] But with large, unified bargaining groups of labor and business premised, the situation approximates a trilateral monopoly,[7] with the monetary-fiscal authority the *de facto* bargainer for the fixed income groups. Labor and business groups would appear to have the better of the strength in comparison to the fixed income groups, and given the premise that the labor and business groups would profit by inflation, and in the face of an effective employment guarantee, it would appear that monetary-fiscal policy would have little choice as to the path it would follow. The simplified "unified monetary system" of current Keynesian doctrine assumes that all business, labor and other groups accept the decisions of this entity as unchangeable, but such a unified system could not operate effectively under a trilateral monopoly situation unless there was (a) "reasonable" behavior by the labor and business groups, or (b) institution of totalitarianism. Practically, the institution of a unified monetary policy would seem to imply breaking up trade associations, unions, informal arrangements of price leadership, industry-wide bargaining, etc.

HOW MUCH INFLATION IS TOLERABLE?

If the above inflationary forces are as strong as suggested, a stable price level *per se* may be impossible of attainment. Perhaps a moderate long-term drift upward of prices would be a more realistic goal.

First, it should be noted that any inflation as such (i.e., over that of an increase in productivity in the comparable period) results in some degree of "euthanasia of the rentier." If the price increases are moderate and not often repeated, the worsening of the various "rentiers" will be a true euthanasia, but the cumulative effect of *frequently recurring* minor inflation is a more serious evil. In assessing this effect, it must be remembered that the fears are not confined to mere oversolicitousness for the "idle-rich" holder of interest-bearing securities, but also to the vital effects on the small businessman, the farmer, the old-age pensioner and other retirement annuitants, the "white collar workers," and others.

What degree of inflation may be acceptable appears a moot question. J. M. Clark puts the figure arbitrarily at an average price level increase of 3 per cent per year (including in this figure an estimated 2 per cent productivity gain), and states that 5½ per cent to 6 per cent in any given year would possibly represent the limit of "tolerable" inflation. But it would appear that if the political decision to maintain an absolutely stable price level is unpalatable and unwork-

[6] In fact, of course, no such responsibilities have been assigned *per se*.

[7] Or possibly quadrilateral if the farm groups are included.

able, so, too, would be such a decision as Clark proposes.[8] A possible alternative might provide a governmental and/or private guarantee of the real value of individual liquid holdings, but the strong element of governmental intervention necessary to *uniformly* implement such a program, together with the problem of reconciliation of international monetary relations, might be a greater evil.

The following generalizations appear to logically follow from the above discussion:

1. An effective full employment guarantee could have as its corollary a stable price level *per se* only under conditions of (a) a "thorough-going competitive system under which prices and wages would be fixed that would 'clear the markets,' "[9] coupled with "perfect" monetary-fiscal policy, or (b) "perfectly" reasonable interest groups and "perfect" monetary-fiscal policy, or (c) totalitarianism.

2. If an employment guarantee is coupled to a "tolerable" degree of inflation and no *major* inflationary imbalances as mentioned in No. 3 below are present, the possibility of alleviating hyperinflation seems reasonably attainable. A mild income redistribution would seem to be the major element subject to possible doubt.

3. If one or a combination of possible imbalances are evident, the possibility of continuing to maintain full employment and a "relatively" stable price level can quickly disappear. These possible sources of trouble are numerous, and to a considerable extent interrelated. They would include, for example, (1) post-World War II type combinations of (a) excess bank reserves and (b) idle funds held by the public, combined with (c) incentive on the part of the public to act in an inflationary manner; (2) poorly timed monetary and/or fiscal policy; (3) major innovations; and (4) aggressive policies of interest groups.

One of the major topics of recent discussion has been the alleged influence of the union in relation to such a force, and the remainder of this paper will be devoted to this one facet.

THE THESIS

"The powerful trade unions are now in the habit of demanding wage increases of 10 per cent or more per year. Since labor productivity cannot possibly rise at that rate, it follows that prices must rise or unemployment appear. In the long run, union policy will probably be the main obstacle to maintaining a high level of employment for any length of time without a rapidly rising price level."[10] This widely-quoted statement of Haberler, together with many equally oft-repeated variations by Slichter[11] and others, premise a causal force inherent in the union movement toward price inflation and unemployment. The problem is not simple, and it would appear that the assumptions implicit in such a statement must be quite carefully set forth.

[8] Clark, *op. cit.*, pp. 24-26.

[9] *Loc. cit.*, p. 27.

[10] Gottfried Haberler, "Causes and Cures of Inflation," *Review of Economics and Statistics*, XXX (February, 1948), p. 14.

[11] Cf. Sumner H. Slichter, *The American Economy* (New York: Albert A. Knopf), 1949, pp. 42-43.

1. A successful demand for higher money wages may result in a higher real wage if it is met from (a) an increase in labor's proportionate share of the national income at the expense of other shares, particularly profits and/or (b) an increase in productivity beyond what it would otherwise have been.

2. Under a given set of circumstances, there is a certain limit beyond which the money-wage level cannot be pushed without either a rise in prices or the appearance of unemployment.

3. In turn, there appears a limit of "tolerable" inflation, beyond which countermeasures will be instituted.

4. Unions will not be satisfied (or are not able to be satisfied) with increases on this side of the limit of even "tolerable" inflation. Therefore, price inflation and unemployment are inevitable.

What is the validity of such an analysis?

INCOME DISTRIBUTION AND PRODUCTIVITY

The sum of real incomes for all claimants is limited by total output and the total real wage income is limited by the "minimum necessary allowance" for the other shares. This statement is, of course, question-begging, but certain statements appear relevant. If a demand for increased money wages is granted without a corollary increase in prices, the increased wage must be paid out of the share of one of the other claimants of firm income, or be accompanied by a corollary increase in productivity of the firm(s).

The first of these two possibilities is dependent to a considerable degree on a subjective evaluation. The major potential source is profit and the theoretical limit is the preservation of the socially necessary profit allowance, beyond which investment would be curtailed (below that *socially* desirable) and total income would be undesirably reduced. The determination of the *amount* of profit in a given period is itself subject to argument among accountants, and the possibility of further disagreement as to principles when labor develops its own concept is sizable. The additional determination of the socially necessary profit level is also a much debated question. Slichter has noted a long-term trend toward a very slow decrease in the percentage of product going to profit and a corollary increase in the share of labor, but the absolute amount is already small, and a point must be quickly reached (if not already reached) where a profit economy ceases to be so except in name. The determination must be pragmatic in the absence of specific quantitative norms, and is much dependent on the ethic one chooses (e.g., the degree of *private* enterprise desired).

However, the above theoretical limit implicitly assumes no reverberations on entrepreneurial expectations in the movement toward a socially desirable profit level. Granted that profits may be at a given time, or, particularly, in a given firm, above this social limit, a wage increase to expropriate the margin would have a strong influence on expectations. The entrepreneur might have no reason to believe that the wage demand would not be repeated, and the expectation of a worsening of the marginal efficiency of capital would reduce investment below that of the (private) socially necessary capital formation. Whether the union, in

turn, would be willing or able to be conditioned by this minimum is a considerable question. As will be more fully developed below, the union is in many respects a short-run political organization, and while possibly realizing the implications of such an expropriation, would not be *able* to effectuate such a policy. As Simons states "Frankly, I can see no reason why strongly organized workers, in an industry where high investment is already sunk in highly durable assets, should ever permit a return on investment sufficient to attract new capital or even to induce full maintenance of existing capital."[12]

In turn, what of the possibilities of increasing wages through an increase in productivity? In theory, the *levels* of prices and wages could vary over time under the influence of an increase in productivity through at least three logical possibilities—(1) constant prices and rising wages, (2) falling prices and constant wages, or (3) rising prices with wages rising at an even greater rate (i.e., inflation). However, it should be emphasized that these logical possibilities concern the *levels*; the structural changes are yet another influence. The productivity rule is meant to hold for industry as a whole,[13] but it can be expected that the rate of increase will vary among firms and among individual industries.

Of the three alternatives above, the third can be immediately discarded as least desirable. Keynes believed that the second, that of constant wages and decreased prices was less desirable than the first because "it is easier with an expectation of higher wages in the future to keep the actual level of employment within a given range of full employment . . . and on account also of the social advantage of gradually diminishing the burden of debt, the greater ease of adjustment from decaying to growing industries, and the psychological encouragement. . . ."[14] Accordingly, the first alternative will, somewhat arbitrarily, be adopted.

[12] Henry C. Simons, *Economic Policy for a Free Society* (Chicago: University of Chicago Press), 1948, p. 131.

[13] Note the interesting possibilities here, viz., manufacturing industries alone? Manufacturing plus mining and services? Addition of agriculture and the government component? College professors? The widely-quoted study by Fabricant utilized only manufacturing industry (Solomon Fabricant, *Employment in Manufacturing, 1899–1939* (National Bureau of Economic Research), 1942. Bureau of Labor Statistics figures would allow a wider base, but such a base might be subject both to limited accuracy and divergent interpretation.

Note also the question of determination of the marginal contribution of labor, for it cannot always be assumed that the marginal productivity of labor rises equally with average productivity. The methodological ramifications alone of developing a meaningful concept of "productivity" are sizable (see, for example, Peter O. Steiner, "The Productivity Ratio: Some Analytical Limitations On Its Use," *The Review of Economics and Statistics*, XXXII (November, 1950), pp. 321–328 and Hiram S. Davis, "The Meaning and Measurement of Productivity" in *Industrial Productivity*, Industrial Relations Research Association, Publication No. 7, 1951, pp. 1–13). In turn, division of productivity into "shares" would appear dangerous, particularly if this division is implicit. The recent article in *Readers Digest* by Charles E. Wilson concerning the "annual improvement factor" of the General Motors-UAW contract may be a case in point (" 'Progress-Sharing' Can Mean Industrial Peace," September, 1952).

[14] J. M. Keynes, *The General Theory of Employment, Interest and Money* (New York: Harcourt, Brace), 1936, p. 271.

Payment of additional wages (1) strictly on the basis of increased productivity of a firm or industry would appear to badly distort normal interfirm and interindustry wage relationships. On the other hand, (2) payment could be geared strictly to the *average* increase in productivity, so that industries in which productivity increased less rapidly than the average would increase prices and those above the average would (theoretically) reduce prices. However, because of the immobility of resources (particularly labor), a more eclectic approach might be advisable (3) industries with more than average gains in productivity increasing wages somewhat more than the average, and vice versa. The fall in employment in the less favored industries would be mitigated, and in face of the traditional rigidity of prices downward, a more salutary effect on the price level would seem to follow.

The impact of union policy on these three possibilities would appear of considerable concern. The first alternative, that of allocating the full benefit of the productivity increase to the particular firms or industries responsible, would appear to satisfy the unions in the favored industries, but would immediately set in motion political influences within the less favored unions to "iron out existing differentials." Under the influence of such standard rate policy—one of the strongest of union dogma—the subsequent increases would produce price raises not backed by productivity gains, with the possibility of additional demands by the first union group to "reap the benefit of our greater productivity."

The second alternative, paying the average increase economy-wide, runs into the multitude of union rules creating immobility. Transfers must be rather quickly facilitated to prevent unemployment. There are a good many ways in which the union could encourage movement; for example, (a) make it easy for members to transfer from union to union (not a problem in the typical industrial union, but usually difficult in the craft union); (b) strengthen the United States Employment Service (possibly by requiring compulsory notification by employers of openings); (c) accept Beveridge-type limitations on unemployment compensation in declining industries, etc. But in every such proposal, a union member is lost to the particular union in the declining industry, and the current union emphasis on seniority rules, severance pay provisions, etc., coupled with the ever-present difficulty of "pulling up stakes" (which, of course, cannot be always attributed to the union) would seem to tip the scales in favor of immobility. The major point would seem to be that a mechanical application of either of the first two alternatives is dangerous.

THE DYNAMICS OF UNION WAGE POLICY

As the well-known statement goes, "there are unions and unions"; past history is subject to diverse interpretation, and extrapolation requires a stout heart and the necessity, sooner or later, of making a good many subjective judgments. "The greatest caution is required in estimating today the consequences of union power tomorrow."[15]

[15] Charles E. Lindblom, *Unions and Capitalism* (New Haven: Yale University Press) 1949, p. 139.

"The trade union constitutes, at least, a system of industrial jurisprudence, a means of political action in the sense of affecting power relations within the community, an avenue of social mobility, a focus for personal loyalties and emotions, as well as a mechanism for pricing labor services. . . . Not only do the market and political process represent alternative means of affecting prices—and the market conditions which in turn must influence the price of labor services, but the bargaining process may overlap jurisprudence and wage structure."[16] The situation in the product market and the labor market may range from pure competition to monopoly, and the union concerned may range from any of the hundred-odd A. F. of L. nationals or the thirty-odd C. I. O. nationals through a widely varing structure of independent national or local unions. Abstracting from the multitude of possible explanations of trade union wage policy, the following premises will be developed:[17]

1. The "typical" trade union may attempt to maximize the total wage bill of the bargaining unit or some part thereof, but the decision as to what will be maximized is determined primarily by political influences within the local union, the national union and the trade union movement as a whole.

2. The "typical" trade union is not uniquely concerned with a "price-quantity" bargain, and to the extent that full employment and rising (potentially rising) prices are evident the "employment effect" is of negligible concern. Competition in the product market may mitigate this lack of concern, but only to a minor extent *in the short run.*

3. The "typical" trade union wage policy is likely to push wage demands and wage settlements beyond the point envisaged by the concept of "tolerable" inflation.

The trade union is essentially a political institution operating in a "particular" equilibrium, and is concerned primarily with the problem of survival. The idealized concept of working for better "terms and conditions" of employment for its constituents is inherent, and one would be foolish to suppose that the union movement could survive for long if union leaders were to fail in protecting the interest of its membership. But the interests to be protected are the interests of the particular members of the local (or national) and are in the main of a short-run character. The union must develop an administrative hierarchy; the hortatory slogans of "union democracy" require that this officialdom be, in the final analysis, elected by and responsible to the membership. Elaborate arguments can be developed to show the lack of democracy in unions and the "excessive" tenure of officie of its officials, but, with the exception of the fringe racketeering element, the inability of an official to "deliver" will sooner or later result in his expulsion.

In turn, the bedrock criterion for a wage increase is the acceptability of this increase to the membership, a membership not able by virtue of knowledge, experience and skill to determine the size of the bargain. "Thus, trade union wage

[16] John T. Dunlop, *Wage Determination Under Trade Unions* (New York: Macmillan), 1944, pp. 224–225.

[17] Cf. Arthur M. Ross, *Trade Union Wage Policy* (Berkeley: University of California Press), 1950.

policy is inevitably a leadership function."[18] What determines the leader's decision in respect to formulating a wage demand?

First, the leader is concerned in the great majority of cases only superficially with the "employment effect." This effect, in order to be subject to rational calculation, must be measurable, but "the employment effect of a wage adjustment is unpredictable before the fact and undecipherable after the fact."[19] *Ceteris paribus* is not possible—production coefficients, substitution effects and aggregate demand do not remain constant. If a wage demand is not backed by a corollary increase in production, the union leader may feel hopeful and even confident that no unemployment will result—that the employer will pay for it "somewhere"—increased prices if possible, decreased profits, borrowing, etc. Marginal substitution is only evident in the long run, and can be fought (although perhaps not successfully) with restrictive rules.

But even if unemployment developed, it would perhaps be slight, and the increased prestige among the remaining members would seem to overbalance the concern for the few more unfortunate members without jobs. However, it should be noted that the job is made more difficult when the employer faces strong competition in the product market, and a price rise is dangerous or impossible.[20] Even here the short-run pressures would appear to require an increase in wages in most cases.

Perhaps the strongest pressure on the union leader is the element of invidious comparison—important to both the worker and the leader. The worker desires a favorable wage comparison with others of like jobs; the fact that one employer can raise prices and another can't will not explain away a wage differential to the employee of the second plant living next door to his more favored neighbor of the first plant.

In turn, the competition between various local and national unions and their constituent leaders is premised primarily on comparison. The prestige of the union and its leader do not depend on how reasonable a wage bargain appears in light of national employment policy, but on obtaining "the best contract in the industry." To repeat, these influences are short-run, and may be made in the face of *openly recognized* adverse long-run effects. As Lindblom put it, "True, employment may fall off as the union pushes wage rates up, but this does not necessarily reduce the earnings of the policy-making groups within the union, even if they represent a large majority. . . . Indefinitely high wage rates may never be detrimental to those remaining in the union who make policy."[21]

One of the more pronounced trends in the union movement in recent years has been the consolidation of "firm-local" contracts into "industry-national" con-

[18] Ross, *op. cit.*, p. 39.

[19] *Loc. cit.*, p. 19.

[20] George P. Schultz and Charles A. Myers, in their empirical study "Union Wage Decisions and Employment," *American Economic Review*, XL (June, 1950), pp. 362–380, appear to support this point, and conclude that many unions are quite concerned with the employment effect under such circumstances, particularly if the industry is not fully organized. But, again, the short-run political pressures remain strong.

[21] Lindblom, *op. cit.*, p. 125.

tracts, i.e., industry-wide bargaining. Such a consolidation would appear on the one hand to eliminate some of the elements of comparison—e.g., the comparison between locals *per se*. But any such tendency would seem to be overbalanced by three major effects of industry-wide bargaining, (1) the tendency toward establishment of an industry-wide standard rate for each job classification, coupled with (2) greater ease for an industry-wide price rise (the demand curve for an industry is almost always less elastic than that of a firm within the industry), and (3) a more direct comparison of rates industry by industry and greater emphasis on this comparison. Whatever possibility existed for employer resistance at the firm level (which had already been premised above as a negligible effect in the short run) would seem to be thus substantially lessened.

The danger that such industry-wide bargaining would result in increased competition between unions, coupled with lessened resistance toward a rise in prices has been widely recognized; a logical proposal for remedy would seem to be the development of a unified economy-wide labor group. Laying aside the practical difficulties,[22] there appear to be at least two major reasons why such a group would not confine its demands within, for example, a productivity base. First, just as the demand of an industry is less elastic than that of a firm, so, too, is the demand curve of a group of industries less elastic than that of a given industry. Due to the higher labor income resulting from higher wage rates and the consequent increase in consumer demand, it would be easier to raise prices. Secondly, there is reason to suppose that this wage demand would tend to exceed productivity increases, for, by doing so, labor would increase its share of the national product, either from the employers if prices were not increased to cover the wage cost increase, or more likely at the expense of the fixed income groups. The first section of this paper premised that monetary-fiscal policy would support this effort in the general case. In other words, the belief that such a unified labor group would *per se* become more "reasonable" is a fiction, for by continuing to act in the *short-run* interests of its constituents it can *in the short run* increase its share—"a movement so unified as to sacrifice the immediate interest . . . contradicts the traditional notion of unionism. . . . Other institutions can safeguard the general welfare; the union is the protector of an interest group."[23]

It would appear that a logical case could be made toward the use of admonitions, threats, or other forms of exhortation to counteract partisan interests. Morton has held [24] that such exhortations, coupled with a conflicting mixture of various economic class opinions, political actions of varying types, etc., had exerted a salutary effect in the immediate post-World War II period, and the results in this period would seem to indicate that some such combination of forces was

[22] These difficulties would appear of major significance in the American labor movement. While there have been frequent overtures on the part of both the A. F. of L. and the C. I. O. for organic unity, the traditional autonomy of the national unions would most likely be preserved within such a federation.

[23] Lindblom, *op. cit.*, pp. 196–197.

[24] W. A. Morton, "Trade Unionism, Full Employment and Inflation," *American Economic Review*, XL (March, 1950), p. 25.

present. However, it would appear that this reasoning depends *per se* on "confusion" and it would seem that as the lines of demarcation were made more evident (as would be the tendency in setting up *one* labor group, *one* employer group, *one* governmental monetary-fiscal authority, etc.), the possibilities of generating caution through lack of knowledge would tend to disappear.

There remains another approach in respect to trade union wage policy, the use of arbitration in determination of wage rates. The problems inherent in such a plan are of considerable magnitude, and a comprehensive analysis appears beyond the scope of this paper. However, a few points are immediately evident.

Wage arbitration would seem to require simultaneous price arbitration. Laying aside even the vast theoretical and practical problems of price control policy, the following types of questions would at once face this arbitration board: (1) What is a "reasonable" profit? (2) How should productivity gains be measured, and what should be the distribution of these gains? (3) What sanctions shall be applied against violators of the policy? (4) What additional controls will be necessary? (5) In all of the above, how can the widely conflicting political influences be practically reconciled?

While granting that these and many other questions could be theoretically resolved, the authoritarianism necessary to fully implement such a policy would appear to doom a "free enterprise" economy.

CONCLUSION

"If workers, low-paid, seek to better their lot
By grabbing some dough from the rich,
It makes jobs for more workers—or else it does not;
I cannot be positive which."[25]

What can be concluded from the above welter of conflicting influences and policies? With considerable misgivings, the following appear to be the over-all generalizations:

1. A strong argument can be built that trade union wage policy will demand and obtain wage increases that exceed labor's contribution to increased productivity.

2. The present evolutionary progress of the union movement toward industry-wide bargaining increases this possibility.

3. The unification of the entire labor movement could implement a policy of full employment with reasonably stable prices (i.e., "tolerable" inflation), if backed by a desire on the part of this labor movement to consider such long-run *public* policy as paramount.

4. There appears a *prima facie* case that a unified labor movement would not (could not) consider the long run, but by force of internal political structure of necessity consider only short-run gains.

5. To the extent that the labor movement could be weakened, such tendencies

[25] Attributed to J. M. Clark in D. M. Wright, *The Impact of the Union* (New York: Harcourt, Brace), p. 342.

would on the face appear of less import. However, in addition to a policy of decimation of the labor movement, corollary policy would be required against all other interest groups (business, the farmer, etc.). The repercussions of such policy, while not predictable before the fact, could result in major changes in expectations and the resultant possibility of decreased effective demand and unemployment.

Perhaps, in the final analysis, the most practical approach to the over-all problem would be an eclectic one, combining many of the alternative policy possibilities. This conglomerate policy might contain something of the following:

(a) A full employment policy of the government designed to bulwark expectations by assuring that positive action would be taken when unemployment rose "too high." No quantitative formula would be espoused, but, rather, a pragmatic determination conditioned by qualitative judgment of governmental administrators of policy and the diverse political pressures combined. Active measures would be taken to decrease structural unemployment through discriminatory unemployment compensation, increased informational sources on job openings, increased private concern toward relocation of industry on a price-cost basis, a wage policy based on productivity gains in which the favored industries would raise wages slightly more than the less favored industries, etc.

(b) A pragmatic monetary-fiscal policy, *openly committed* to a policy of a reasonably stable price level and reasonably full employment, but pursuing different courses of action at different periods of time, i.e., the "paucilateral monopoly" concept of Reder, wherein there is a constant shifting of informal alliances between a semi-unified monetary-fiscal authority and a group of interest-group bargainers, some of whom may be buyers (sellers) only and some both buyers and sellers.[26] Internal conflicts within the monetary-fiscal authority, while remaining in evidence, would progressively lessen (e.g., the FRB-Treasury conflict cannot be fully resolved to both parties' satisfaction in the short run—over a longer period of time under this plan the conflict would tend to lessen).

(c) The monopolistic power of unions would be progressively *quite slowly* reduced. A discouragement or actual prohibition of industry-wide bargaining would perhaps be one of the early policy steps. The reduction of union influence *per se* in political elections would also appear advisable. However, in all such action, care would be taken to insure that a "union busting" campaign would not be instigated—the government would stand ready to stamp out any such action by, for example, employers. In turn, the same qualitative policy would be instituted equally (and again quite slowly) toward restricting the monopoly power of other interest groups, business and the farm group in particular.[27] Active anti-trust action would continue, but would not be directed at any one interest group alone.

(d) Wage and price control would be considered only as a "last resort," and,

[26] Reder, *op. cit.*, p. 59.

[27] Perhaps such action would be unnecessary if one subscribes fully to J. K. Galbraith's concept of "countervailing power." (*American Capitalism* [Boston: Houghton, Mifflin], 1952).

if used, would ostensibly be temporary; the length of time of such controls would not be quantitatively stated.

(e) Exhortation toward various interest groups would be resorted to by the government. Such exhortations would be diverse in nature and somewhat conflicting in their content.

It is submitted that the combination of prescriptions above might allow a reasonable approximation of "tolerable" inflation. The position of the "rentier" would be slowly worsened, and there would be definite long-run dangers inherent in such "tolerable" inflation. But perhaps by that time a more definitive policy would be developed.

PUBLIC OPINION AND THE UNION SHOP*

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The question of union security is certainly one of the foremost issues in labor-management relations which have not yet been resolved. Any doubts on that score were dissolved in the heat of the discussion over the union-shop demand of CIO, AFL, and independent unions in several disputes referred to the Wage Stabilization Board during the winter of 1951–52.

Conflict in this country over the issue of union security is as old as the union movement. The "societies" of workmen prosecuted for criminal conspiracy in the period between 1829 to 1842 had all enforced the closed shop.[1] Approximately 100 years later, closed-shop agreements covered almost 30 per cent of all workers under agreement, and union-shop agreements almost 20 per cent, or together a total of six and one-half million workers. An additional 20 per cent of all workers under agreement (three million) were covered by maintenance-of-membership provisions, and two to three per cent were covered by preferential hiring provisions.[2] But despite the fact that union security, in one form or another, has become an established feature of employer-union relations, it has never achieved popular acceptance. More significantly, it has consistently been opposed by the official spokesmen for American industry.

The history of labor-management relations in this country during the first half of the 20th century indicates that union security is a crisis issue: it has come to the fore in every national emergency since World War I. During that period it was perhaps the most troublesome problem confronting the first National War Labor Board. Again, in the defense mobilization period immediately preceding World War II, conflict over the union shop issue wrecked the National Defense Mediation Board. The same fight carried over to the National War Labor Board after the outbreak of the war and very nearly destroyed that agency as well. After the passage of the Taft-Hartley Act in 1947 and the adoption of more stringent legislative restrictions on the union shop, many people believed that the issue of union security had finally been resolved. The outbreak of violent controversy over the question when it came before the Wage Stabilization Board dispelled that illusion.

The degree of emotional intensity engendered by these periodic debates over union security has never been matched by a corresponding degree of knowledge of the relevant facts. By and large, American citizens are poorly informed concerning the history of union security in this country, the various forms of union

* The writer wishes to acknowledge the valuable assistance of Fred Rothfarb, Research Assistant, Institute of Industrial Relations, UCLA, in the preparation of this paper.

[1] Commons and Associates, *History of Labor in the United States* (Macmillan, 1918), Vol. I, pp. 401–12.

[2] "Extent of Collective Bargaining and Union Status, January, 1944," *Monthly Labor Review*, April 1944, pp. 700 and 704.

security and the differences between them, and the provisions of existing laws relating to the subject. It is a characteristic of the world we live in, however, that people develop strong emotional responses to a variety of complex problems which they know little about and do not fully understand. Union security is such a problem.

The widespread emotional reaction to labor demands for the union shop in the disputes referred to the Wage Stabilization Board is a matter of public record. During the pendency of the disputes the issue was discussed intensively by newspaper editorial writers and columnists, radio commentators, civic organizations, and professional groups. Many persons expressed their views in letters to members of the Board. Between December 22, 1951 (the date the Steel Case was certified by the President to the WSB) and March 20, 1952 (the date the WSB announced its recommendations in that case) the writer, who was then serving as a Public Member of the Board, received 1,350 letters dealing wholly or in part with the union-security issue.

It is impossible to determine how accurately these letters reflected public opinion generally. While they came from widely distributed areas—some 42 states were represented—the great bulk of letters originated in but a few places. Some 752, or about 56 per cent, came from four states: Illinois, California, Ohio and New York; and most of the letters in those states were sent from one or two large cities. Even so, it seems reasonable to conclude that a great many people share the attitudes and opinions revealed in the letters which were received.

The purpose of this article is not to discuss the union-shop disputes considered by the WSB or to defend the recommendations made by the Board in those cases. Rather, it is proposed to draw certain conclusions, based upon an analysis of the letters received, with respect to the information, attitudes, and opinions of a substantial number of the American people about the union shop. In order to establish an intelligible basis for the analysis and the conclusions, however, it is necessary to refer briefly to a few of the pertinent facts about union security.

TYPES OF UNION SECURITY PROVISIONS

While the union shop is the particular type of union security involved in the present discussion, it is so frequently confused with other forms that it may be worth while to point up the distinctions between the various terms commonly in use.

The strongest form of union security is the *closed shop*, under which an employer may hire only union members. Under traditional *union-shop* arrangements, the employer is free to hire non-union workers on the open market; but any non-union employee must join the union within a prescribed period. A still less stringent form of union security, which was widely adopted during World War II, is *maintenance of membership*. Under this arrangement new employees may elect to join the union or not, as they wish. Once having joined, however, they must maintain their membership in good standing for the life of the collective agreement.

STATUTORY RESTRICTIONS ON UNION SECURITY DEVICES

All of the established forms of union security were expressly or impliedly permitted by the National Labor Relations (Wagner) Act of 1935. In 1947 Congress passed the Labor-Management Relations (Taft-Hartley) Act. This law, among other things drastically changed the legal status of union-security agreements. In substance, it prohibited new closed-shop agreements and permitted union-shop and maintenance-of-membership arrangements only under the following limited conditions: (1) the union first had to comply with a number of procedural requirements;[3] (2) the union-security agreement subsequently executed could not apply to individual employees until 30 days following the beginning of their employment or the effective date of the agreement, whichever was the later; and (3) no individual could be discharged under a union-security agreement if he had been denied membership on the same terms and conditions generally applicable to other members, or if he had been denied membership or expelled by the union for reasons other than failure to tender the periodic dues and initiation fees uniformly required as a condition of acquiring and retaining membership.

In January, 1951 Congress amended the Railway Labor Act, which since its original enactment in 1926 had forbidden any form of union-security agreement to permit the form of union shop authorized by the Taft-Hartley Act and the checkoff.

UNION-SHOP CASES BEFORE THE WSB

Between October 12, 1951 and January 28, 1952, six cases involving the union-shop issue came before the Wage Stabilization Board. Of these, the dispute between the United Steelworkers of America, CIO, and 157 steel and iron ore companies was the most widely publicized.[4] The previously existing collective agreements between the Steelworkers and most of the steel companies had provided for maintenance of membership and the checkoff. The Union's demand was for the type of union shop permitted by the Taft-Hartley Act. Concerning the prevalence of union-shop agreements in the steel industry, the

[3] An employer was under no legal obligation to bargain on the question of the union shop unless the union had won a prior "union authorization" election by securing a majority of the total eligible vote among the employees in the bargaining unit. (This particular provision was eliminated by an amendment to the Act adopted in October, 1951.) No petition for such an election would be entertained by the NLRB, however, unless the union had filed certain prescribed reports relating to its constitution, by-laws, and finances with the Secretary of Labor and unless its officers had executed the so-called non-Communist affidavits prescribed by the statute.

[4] The other five cases involved Douglas Aircraft Company and the United Auto Workers, CIO, and the independent United Aircraft Welders of America; Boeing Airplane Company and the International Association of Machinists, AFL; Ryan Aeronautical Company and the UAW-CIO; Aluminum Company of America and the International Council of Aluminum Workers, AFL; and the same company and the USA-CIO.

The WSB issued recommendations in the Steel, Boeing, and Douglas cases and returned the two Aluminum cases without recommendations. The Ryan case was settled by the parties while still on the Board's docket.

WSB made the following findings of fact:

The record in this case indicates that of a total of 2,200 contracts with this Union covering production and maintenance units in basic steel and fabricating plants, union-shop provisions have been agreed to by employers in 994 (45 per cent). It also appears that of 66 companies operating basic steel plants with which the Union had contracts in October, 1951, 27 had agreed to either the full union shop or some modification thereof beyond maintenance of membership. Furthermore, while most of the major steel producing companies have not agreed to the union shop in their contracts with this Union, several of them have included such clauses in agreements with other labor organizations. The steel companies which own and operate coal mines, for example, entered into union-shop agreements some years ago with the United Mine Workers of America. More recently, several of the railroad subsidiaries of the steel companies have adopted union-shop clauses covering railroad employees, prior to and without recommendations from any Government board.[5]

PUBLIC ATTITUDES AND OPINIONS

By and large, the letters written to the WSB about the union shop fell into two main categories: first, those opposing the assumption of jurisdiction over this and other non-economic issues by the Board; and second, letters opposing the union shop "in principle."

Jurisdictional Objections. The most common argument advanced in the letters opposing the WSB's exercise of jurisdiction was that this would constitute an unwarranted interference with "free collective bargaining." Many writers expressing this view did so in the mistaken belief that the Board had the power to establish the union shop by its "order"; others, aware that the Board had authority only to recommend, argued that even a recommendation would be improper.

The jurisdictional objections covered a variety of different points. One group of letters stressed the historical argument; reference was made to the fact that the union shop was not imposed by government during World War II, although unions had given a no-strike pledge during that period. Letters making this argument frequently quoted or referred to President Roosevelt's statement during the 1941 union-shop dispute in the captive coal mines: ". . . The government will never compel this five per cent [of non-union miners] to join the union by a government decree. That would be too much like the Hitler methods toward labor."[6]

A second group of letters opposing the exercise of jurisdiction by the WSB concentrated principally on the point that a recommendation from a govern-

[5] Opinion of the Public Members, In the Matter of Basic Steel Industry and United Steelworkers of America (CIO), Case No. D-18-C.

[6] The President's statement was made at a conference with union and steel industry officials on November 14, 1951. "Report on the Work of the National Defense Mediation Board," *Bureau of Labor Statistics, Bulletin No. 714* (1942), p. 268. The union-shop issue in the Captive Mines case was ultimately resolved by voluntary arbitration before a board consisting of Benjamin F. Fairless, John L. Lewis, and John R. Steelman, Chairman. The award, which granted the union's demand, was handed down December 7, 1941. *Ibid*, p. 272.

mental agency is tantamount to an order; that one such recommendation in the Steel Case, for example, would "sweep the country"; and that action by the WSB on this issue would deprive employees everywhere of the opportunity to express their views with respect to the union shop.

A third group of letters conceded the right of employers and unions privately to agree upon the union shop, and some even thought this was desirable; but all opposed the idea of the WSB recommending that such agreement be made. On the other hand, a number of writers condemned all union-shop agreements, including those reached without government intervention, and demanded that the WSB "preserve" freedom by "refusing to recommend" the union shop.

The fourth major group of letters in this general category expressed the view that the WSB had no jurisdiction over non-economic issues such as the union shop. Almost all of the writers in this group were under the misapprehension that the emergency disputes procedures in Title II of the Taft-Hartley Act were applicable to all the disputes before the WSB,[7] or that the union-shop issue in those cases could be disposed of in proceedings before the NLRB.

In addition to the foregoing objections, there were several political arguments against the exercise of jurisdiction by the WSB. Some letters pointed out that if the Board acted on the issue in the cases then pending, it could not later resist a similar demand from Communist-dominated unions. Others asserted that action by the WSB would be a step toward Socialism.

Objections "In Principle." Most of the letters expressed an unfavorable view of the union shop, regardless of the circumstances under which it is instituted. The attitudes and opinions were of such great variety that they can best be summarized in outline form, as follows:

A. *Nature of the Union Shop*

1. It is "unconstitutional," "un-American," "undemocratic," "fascistic," "communistic," "socialistic," "pure slavery," and "illegal" (violates anti-trust laws).
2. It is the closed shop under another name.
3. It is necessary only where the employer is trying to cheat his employees.
4. It will result in "the type of labor-socialist movement which destroyed the British empire and enslaved the British worker."
5. It has fostered the growth of "union monopolies."
6. It is bad for retail stores, which need prompt, courteous salespeople.

B. *Union Shop and the Individual Employee*

1. An employee should not be deprived of his right to work because he either does not want to join a union or is unacceptable to the union.

[7] The emergency disputes procedures set forth in Title II of the Taft-Hartley Act apply only to those cases involving "a threatened or actual strike or lock-out affecting an entire industry or a substantial part thereof," which, if permitted to occur or to continue, would "imperil the national health or safety." It was generally conceded that the steel dispute was subject to these provisions of the Act and that the Douglas and Boeing disputes were not.

2. No employee should be compelled to join a union even if the majority votes for the union shop; for if the majority votes against the union shop , his right to join the union is not restricted.
3. The individual employee needs protection from unions more than he needs protection from employers:
   a. He needs protection from the "majority in control."
   b. He needs protection from the "minority in control."
   c. He is "powerless" to protest against union policies for fear of "losing his job" or being "blacklisted."
4. No employee should have to "pay tribute" to the union:
   a. He should be able to hold his job solely on the basis of performance.
   b. He is not required to join the political party which wins an election; he need not own property before sending his children to public, tax-supported schools.
5. Most employees do not even want unions; only one-fourth of the labor force is organized.
6. In an open shop the employee is "happy and contented"; in a union shop he is "disgruntled" because "other workers loaf and cannot be fired."

C. *Union Shop and Unions*

1. It is basically a device whereby union leaders get control over employees and income from them; it permits unions to exact unreasonable dues and initiation fees from workers.
2. It is a device whereby union leaders seek to control production.
3. It tremendously increases the power of unions, and this power is used contrary to the "public welfare": union demands are the main cause of inflation.
4. It is unnecessary, as shown by the fact that union membership has increased since passage of the Taft-Hartley Act.
5. It relieves union leaders of the responsibility to organize; they should be compelled to "sell" their unions to the workers.
6. It is bad because competition among unions is healthy.
7. It is bad because many union leaders are "racketeers of the worst sort, with long criminal records"; it has "led to racketeering in unions."

D. *Union Shop and Management*

1. It takes away the power of management to "operate the mills in the best interests of most of the people."
2. It will force the closing of many small businesses; it will "straight-jacket" business generally and "impede effective action."
3. It forces employers to become union business agents.
4. It will give unions power "to bankrupt any company at will."
5. It is forcing American capital abroad for the "greater return that is possible there."

6. It transfers to unions the employers' right to hire and fire without transferring the corollary responsibility for maintaining productive efficiency.
7. It slows down technological progress.

SUMMARY AND CONCLUSIONS

A review of the opinions expressed indicates a considerable degree of confusion and misunderstanding about union security in general and the union shop in particular. First, the writers were generally ignorant or misinformed about the differences between the union shop and other forms of union security, notably the closed shop. Second, they did not understand the nature and effect of the Taft-Hartley restrictions upon the union shop, and therefore tended to overestimate the practical results of union-shop agreements. Finally, they had no clear idea of the jurisdictional boundaries of such agencies as the Wage Stabilization Board, the National Labor Relations Board, and the Federal Mediation and Conciliation Service; and this fact, together with the confused notion of the scope of the Taft-Hartley Act's national emergency provisions, led many of them erroneously to conclude that a forum was provided by law for the final settlement of disputes over the union shop.

In summary, the following conclusions seem justified:

1. The issue of union security is still one of the major unresolved sources of conflict in labor-management relations in this country.

2. A great number of Americans—perhaps the majority—know little or nothing about union security, and much of what they think they know is wrong. For good reasons or bad, however, they are against the union shop. Nevertheless, the issue of union security remains, and greater public enlightenment on the question is probably a necessary condition for the attainment of an equitable and workable solution.

3. A serious complication in the union security problem is the debate over the role of government in disputes involving that issue. Until this question is resolved, it is doubtful whether general agreement on an acceptable form of union security can be secured. At least at the present time, however, a general public distrust of government, particularly regarding the Democratic administration's relations with organized labor in recent years, makes that resolution especially difficult.

COMMUNICATION

UNION STRENGTH AND FACTORY EMPLOYMENT

If unions "distort" long-period resource allocation, then *ceteris paribus*, employment should grow more rapidly in non-unionized and weakly unionized industries than in industries where labor organizations are strong. If unions accentuate cyclical unemployment, then, *ceteris paribus*, rapidity of cyclical advance should be negatively associated with, and/or rapidity of cyclical decline positively associated with, degree of unionization within the industry. The assumption of *ceteris paribus* is, of course, a crucial one. Various types of "outside" forces can offset (or reinforce) a causal union-employment relationship. Crude employment data necessarily reflect the influence of these forces as well as any effect for which unionization may be responsible. Moreover, the nature of several of these "outside" variables is such that multiple correlation is impossible. Changes in tastes, expectations, and technology, for instance, cannot be quantified in an employment study.

Nevertheless, simple comparison of employment movements with degree of union strength can contribute in a lesser way to the study of the problem. If such comparison reveals a fairly strong negative association between employment change and union strength,[1] it serves to weaken doubt concerning the hypotheses outlined above: that unions "distort" resource allocation and accentuate cyclical unemployment. If it reveals a very weak or a positive association between the two variables, it serves to strengthen doubt concerning the hypotheses —or, at least, to strengthen doubt that unions exercise quantitatively important effects upon allocation and cyclical employment. With this in mind, we have examined certain statistical materials in order to see what we can discover about the relationship between percentage of unionization and extent of employment change in the United States during 1923–1949. The comparisons made involve both cyclical and longer-run periods, with the cyclical movements being the recessions of 1929–33, 1937–38 and 1948–49, the prosperities of 1923–29 and 1946–48, and the recoveries of 1934–37 and 1938–41, and the longer period being the 18-year stretch of 1923–41. Our chronological choices have depended in part upon the nature of the available data, as well as divisions indicated by business cycle movements. Our restriction of the study to factory employment results from the same limitation; comparable employment unionization estimates are not abundant outside the manufacturing area.

Indeed, matching unionization and employment data frequently is difficult even in the case of manufacturing industries. Bureau of Labor Statistics estimates of unionization have been published only for the three years 1938, 1942, and 1946;[2] Wolman's estimates for the years 1923–33 divide manufacturing into 13

[1] The term "strong association" here refers to height of regression coefficient as well as of correlation coefficient.

[2] *See Monthly Labor Review*, Vol. 48, March, 1939, pp. 493–508; Vol. 54, May, 1942, pp. 1066–1070; and *Bureau of Labor Statistics Bulletin*, No. 909, p. 2.

broad industry groups rather than into specific industries;[3] and the Ross-Goldner unionization estimates for 1933[4] are not matched by comparable employment statistics. For the 1923–29 prosperity and the 1929–33 recession, we have relied upon Wolman's estimates. For the 1934–37 and 1938–41 recoveries and the 1937–38 recession, we have chiefly made use of the *Monthly Labor Review's* monthly indices of employment and Bureau of Labor Statistics estimates of union strength in 1938 and 1942. The 36 manufacturing industries covered comprise an unknown but substantial percentage of total manufacturing employment. For the postwar years we have utilized the *Monthly Labor Review's* annual estimates of employment and Bureau of Labor Statistics' estimates of unionization in 1946. For 1946–48 we have data on 35 industries constituting 61 per cent of total manufacturing employment; for 1948–49, coverage of 38 industries constituting 62 per cent of total manufacturing employment. For the long period of 1923–41 we use *Monthly Labor Review's* monthly estimates of employment (which have a 1923–25 base), the Ross-Goldner estimates of unionization in 1933, and Bureau of Labor Statistics estimates of unionization in 1942.

We discuss weaknesses in these data after we present our findings, which are summarized (in so far as linear relationships are concerned) in the lone table. The two variables for our calculations represented here are (1) the percentage of an industry's workers belonging to unions, and (2) the percentage rise or fall in employment within the industry during the period. In that majority of cases where we know only that unionization falls within a 20-point category (e.g., 20–39 per cent) we have employed the midpoint of a category to represent all unionization values within it; hence the coefficient of regression represents an employment change one-twentieth as great as that associated with a one-category difference in unionization.

The coefficients of correlation and regression do not support the two hypotheses stated at the beginning of the paper. For the cyclical periods, positive coefficients outnumber negative ones 10 (or 12) to 7 (or 5).[5] Of the negative coefficients, two are statistically significant: all manufacturing and durable goods in the recovery of 1934–37 (employment ordered according to estimated percentage of unionization in 1935). All other coefficients, both negative and positive, are below the levels usually accorded significance.[6] This statement also applies to the figures derived for the long period of 1923–41. The positive correlation coefficient of +.08 is very weak.

We did not make formal tests for curvilinear correlation. Scatter diagrams indicate, however, that comparisons of this type would not provide support for the two hypotheses: i.e., would not show that increments of unionization produced increasing or decreasing employment-depressing effects. In only a

[3] Leo Wolman, *Ebb and Flow in Trade Unionism*, Table VII, pp. 222–226.

[4] A. M. Ross and William Goldner, "Forces Affecting the Interindustry Wage Structure," *Quarterly Journal of Economics*, Vol. LXIV, May 1950, pp. 254–261.

[5] The ratio here depends upon the unionization base chosen for 1938–41, whether 1938 or 1942.

[6] If we exclude certain war industries from our calculations, the positive coefficient for durables in 1938–41 becomes significant. See the lone table, Footnote (c).

Union Strength and Manufacturing Employment: Linear Relationships[a]

	ALL MANUFACTURING			DURABLE GOODS			NON-DURABLE GOODS		
	No. of Industries	Coefficient of Correlation	Coefficient of Regression	No. of Industries	Coefficient of Correlation	Coefficient of Regression	No. of Industries	Coefficient of Correlation	Coefficient of Regression
Recessions:									
1929–33	13	+.20	+.26						
1937–38	36	+.14	+.08	17	+.05	+.03	19	+.08	+.03
1948–49	38	−.08	−.04	17	+.03	+.02	21	−.12	−.03
Prosperities:									
1923–29	13	+.27	+.36						
1946–48	35	+.07	+.11	16	+.03	+.03	19	+.13	+.27
Recoveries:									
1934–37[b]									
Employment data arranged according to estimated percentage of unionization in 1935	36	−.48	−.61	17	−.53	−.81	19	+.05	+.03
Employment data arranged according to estimated percentage of unionization in 1938	36	−.24	−.30	17	−.35	−.43	19	+.13	+.07
1938–41[c]									
Employment data arranged according to estimated percentage of unionization in 1938	36	−.26	−1.20	17	−.29	−1.82	19	−.19	−.10
Employment data arranged according to estimated percentage of unionization in 1942	36	+.19	+1.25	17	+.28	+2.35	19	−.11	−.08
Longer Period:									
1923–1941[d]	31	+.08	+1.62						

[a] The two variables are (1) the percentage of an industry's workers belonging to unions, and (2) the percentage rise or fall in employment within the industry during the period. For all periods except 1923–29 and 1929–33 the median percentage of a unionization category (i.e., 10, 30, 50, 70, 90) is used in the calculations. Wolman's data (*loc. cit.*) for 1923–33 are in terms of exact percentages, rather than ranges, of unionization for 13 broad industry groups.

[b] If we exclude aircraft, which showed a marked employment rise, from the comparisons, the coefficients change to:
1935 unionization: All Mfg.: Cor. −.47, Reg. −.52; Dur.: Cor. −.60, Reg. −.66
1938 unionization: All Mfg.: Cor. −.14, Reg. −.16; Dur.: Cor. −.22, Reg. −.20.

[c] If we exclude aircraft, shipbuilding, and railway rolling stock, series which showed very great employment advance during this period, the coefficients become:
1938 unionization: All Mfg.: Cor. +.08, Reg. +.06; Dur.: Cor. +.50, Reg. +.34
1942 unionization: All Mfg.: Cor. +.21, Reg. +.21; Dur.: Cor. +.58, Reg. +.52.

[d] The comparisons exclude aircraft and shipbuilding.

very few cases does it appear that curvilinear correlation would provide appreciably better fits than straight lines. One of these is the comparison for 1923–29, where a curve apparently would strengthen a weak (insignificant) positive association. The other cases are the comparisons for durables and all manufactures during 1934–37 (1935 unionization base). Linear correlation also shows significant negative coefficients for these series in this period.

Any interpretation of the findings must depend in large part upon the importance ascribed to gaps and crudities in our data. These include:

(a) Unionization data are not available for each year in which we are interested.

(b) *The Monthly Labor Review's* employment estimates which we utilize are not adjusted to later Census reports, hence are subject to correction.

(c) We do not have employment estimates for the first two months of 1934 or for certain war industries for the last three months of 1941, so that our yearly averages are not always strictly comparable in our calculations involving those years.

(d) *Bureau of Labor Statistics* estimates of unionization show percentage of union coverage within broad ranges (0–19, 20–39, 40–59, 60–79, 80–100 per cent) rather than precisely. The Ross-Goldner estimates for 1933, which we utilize in our 1923–41 comparisons, are even less precise, since they combine the two lowest ranges (0–19, 20–39) into one. Thus we secure only a blurred picture. With several employment values for each unionization value, the scatter diagrams cannot show very close fits to regression lines. Moreover, if precise unionization data were available, we might sometimes discover only a slight spread between the mean or median values of adjoining 20-per-cent categories.

(e) Comparisons involving so long a time period as 1923–41 are of necessity rather crude, even though Bureau of Labor Statistics employment indices for 1941 have a 1923–25 base. For this long period we have made rough calculations for 31 industries for which we have unionization estimates for years 1933, 1938, and 1942. In the comparisons we classify industries into five different groups, according to their "average" level of unionization in the three stated years.

There is, of course, no way of being sure to what extent these lacks and crudities distort calculations and form the explanation of the findings summarized above. Probably the flaws discussed in (d) are by far the most important; but these by themselves should not be important enough to prevent the calculations from revealing negative relationships consistent with the two stated hypotheses. At most the imprecision of unionization data should prevent negative coefficients from being very high.

Even if flaws in the data do not distort the calculations more than is suggested above, the discovered statistical relationships do not allow so strong a conclusion as that the two initially stated hypotheses are false. "Outside" forces undoubtedly intrude and blur the picture to some extent. It is possible that they completely offset unfavorable effects which unions exert upon allocation and employment.

But it is also *possible* that these "outside" forces reinforce, rather than offset, labor organization's effects. In the absence of any specific theory of unionism, it does not appear reasonable to argue that disturbing forces *must* be so distributed as to change negative to neutral and positive relationships between unionization and employment. If such forces are usually distributed at random throughout manufacturing as a whole (even if not so distributed within single industries), and if unionization has uniformly depressing effects upon employment, our study should show a preponderance of negative relationships. Doubtless many of the negative coefficients should be well below the level of statistical significance, and doubtless also positive coefficients might be expected occasionally to appear. But the general picture should be one of negative association between employment change and percentage of unionization.

If, during the periods under study, a biased distribution of "outside" forces did change a negative association into a neutral one, then, obviously, the employment-deterring effects exercised by unions were *comparatively* weak. In an explanation of employment change during the periods, union actions do not deserve as much attention as certain other variables.

Another possible interpretation of the findings is that employment and unions were bound together in two different ways. In one association, unionism exerted a negative effect upon employment, as stated in the two initial hypotheses. In the other, employment growth exerted a positive effect upon percentage of unionization.[7] Positive effects from the latter side thus encountered negative effects from the former, and almost exactly offset them.

This is a possible explanation that cannot be discarded. But some of the evidence suggests that it is much less than a complete explanation. A hypothesis that employment behavior is the independent variable fits in well enough with the comparisons for the long period of 1923–41, since those unions which had the highest "average" strength during the period were also in large part those which grew the most rapidly during the period.[8] It is quite reasonable to argue that unions concentrated their efforts on the areas of rapidly increasing employment, and thus that these areas reveal the highest percentage of organized workers. But this hypothesis does not appear to supply an explanation for the approximately neutral association between employment behavior and *initial level* of unionization, such as is shown in the comparisons for 1923–29, 1929–33,[9] 1937–38, 1938–41 (1938 unionization base), 1946–48 and 1948–49. Industries where employment grows the most rapidly within a particular period are fre-

[7] C. L. Christenson, in his review of A. M. Ross, *Trade Union Wage Policy* (*Journal of Political Economy*, Vol. LVII, Feb., 1949) suggests that unionization may play such a dependent role.

[8] A comparison between employment change and union *growth* during 1923–41 shows a positive correlation coefficient about two-thirds as high as the minimum figure usually accorded significance.

[9] For the 1923–29 and 1929–33 periods we compared employment behavior with average, rather than initial, level of unionization. But there is a little difference between the average and the initial levels.

quently not the industries where employment behavior was most attractive for organizational drives in preceding years.

If we take the statistical findings at face value, then of course, we conclude that unionism has not had appreciable effects upon the pattern of employment. As has been stated above, the findings do not justify so strong a conclusion. This possible interpretation is, however, consistent with a kindred hypothesis which has been widely advanced: that unions have not appreciably affected the interindustry wage structure.[10] If we restrict the explanation solely to short-period, or cyclical behavior, it is also related to the hypothesis that demand for workers is likely to be wage-inelastic in the short run. It does not appear reasonable, however, to argue that demand for workers is also likely to be wage-inelastic in the long run, or for so long a period as 1923–41.

Indiana University HENRY M. OLIVER, JR., AND FRED WITNEY

[10] Among the latest of numerous papers on this subject are A. M. Ross and William Goldner, *loc. cit.*, and J. W. Garbarino, "Interindustry Wage Structure Variation," *Quarterly Journal of Economics*, Vol. LXIV, May, 1950.

BOOK REVIEWS

The Works and Correspondence of David Ricardo. Edited by Piero Sraffa and M. H. Dobb. New York: Cambridge University Press, 1952. Vols. VI, VII, VIII, IX. Pp. xli, 353; ix, 387; ix, 403; ix, 401. $4.75 each.

In these four volumes Messrs. Sraffa and Dobb bring to a close thëir monumental task of presenting all the surviving work of Ricardo. The concluding four volumes here reviewed consist entirely of letters to and from Ricardo, including the famous and much discussed "lost" letters of Malthus presenting his side of the controversy.

Like the previous volumes of this series the present books constitute a real gold mine, full of interesting material, and extraordinarily modern in the problems discussed. Most readers of course will be interested in following the running debate between Malthus and Ricardo on the causes of unemployment. I am obliged to say, however, that I cannot share Keynes' opinion that the publication of Malthus' side of the controversy would have changed the history of economic thought. The major arguments appearing in the letters have appeared in the books of the two men and they never succeeded in "communicating." Malthus, in fact, gets quite sharp about it (Vol. IX, p. 90) "I am either most unfortunate in my explanations, or your mind is so entirely prepossessed with your own views on the subject of our discussion that you will not give to any statement, which departs from them the degree of attention which is necessary to put you in possession of what is meant." One is not surprised to find that the correspondence falters after this letter and it never resumed on the same scale. Though there appears no loss of good will, on Ricardo's side anyhow, Malthus seems to have felt himself up against such a blank wall that he largely gave up in despair.

The core of the arguments concerning unemployment (repeated through all four volumes of letters) is exemplified by letters 442, 443, and 444 of Volume IX. As I have pointed out in my review of the earlier volumes, Ricardo granted the possible existence of a saturation point, but held that at such a point the fall in profits would result in a rise in the propensity to consume (I use modern Keynesian language) so that there would be no unemployment. This position is certainly logical. Ricardo, in fact, admits that his argument does show that consumption *was sometimes* a good thing. But he would not apply this principle in practice. Malthus' impatience is understandable.

On the other hand, again using modern Keynesian language, what Ricardo seems to have felt, as a practical matter, was that the depression of 1819–21 in England was due to a collapse of the marginal efficiency of capital due to too high a wage rate plus an *unduly restrictive credit policy* on the part of the governors of the Bank of England (letter 440). At this late date who can say which man was correct?

Those, however, who wish to portray Malthus as a great "liberal" (in the modern sense) would do well to ponder letter 443 in which he maintains that

it is only the unproductive expenditure of "*landlords and capitalists*" that helps. "The unproductive consumption of the laboring classes themselves, beyond what is necessary, not only to their powers but to their increase, is so far different from the unproductive consumption of their employers as to occasion exactly the opposite effect upon profits." What difference would this make to employment, however, if there were no longer any net saving?

University of Virginia DAVID MCCORD WRIGHT

Utility and All That and Other Essays. By D. H. Robertson. New York: Macmillan Co., 1952. Pp. 207. $3.50.

A large number of economists, bankers and others will welcome with pleasure the appearance of this little volume, which comes happily at a time when many will have in mind thoughts of felicitation for Sir Dennis Robertson.

There is no new work among the sixteen essays of which the present volume is composed, but several of them are reprinted from journals less commonly available, so that their collection in book form is a convenience. They all belong to the period since World War II, a fact lending some unity to the essays, which range indeed from book reviews, a broadcast talk, and a newspaper interview on the one hand to a paper based on two lectures given at Manchester University and to presidential addresses before the Royal Economic Society and Section F of the British Association on the other hand. Yet this little book has at least one other unity also, for Professor Robertson writes as ever in his own inimitable style: the example does frequent duty for the generalization, the part for the whole; the vivid and homely metaphor shames in its brevity those who would labor after rigorous exactitude; and ever and anon Robertson lapses deliberately into the turbid depths of peculiarly British idiom and vernacular, which is a pretty sticky wicket for transatlantic players to face yorkers like his on. Some and not all of the essays are leavened airily with the humor of their author's artistry.

Certainly the first essay, "Utility and All That" (which many readers may know already) is among the most interesting. Robertson doubts frankly whether such valid refinement of economic thought about welfare has taken place since the time of Alfred Marshall. If that is surprising, let the reader be on his guard: for it may be that Robertson studied Marshall more thoughtfully and understood his more completely than did any other writer of today. With care and discrimination Robertson champions the cardinality of utility, or of "ecfare" (antithesis of *enfer?*); but even sympathizers somewhat *frei* of *Wertfreiheit* may be shocked a little by his interpersonal comparisons.

Yet it is not on the whole the old-fashioned liberalism which will strike Robertson's readers so much as his fundamental wisdom. "The Economic Outlook" reveals him thinking in 1947 well ahead of his contemporaries: what was really in question, as he realized, was the propriety of a price system for dealing with our post-war problems; and Part II, touching upon 'the' rate of interest, helped to beat a path which many were to follow soon after.

In the last two Parts, perhaps the last two essays of each will have a narrower

appeal to readers, but in "The Problem of Exports" (no. 8) and in "Is There A Future for Banking?" (no. 14) Robertson is doing what he can do so superbly well: in his most provoking and humorous manner to ask himself fundamental questions. Those two essays alone would justify the production of this pleasant and valuable little book, if not the price at which it is offered.

Oglethorpe University W. A. L. COULBORN

Planning for Freedom and Other Essays and Addresses. By Ludwig von Mises. South Holland, Illinois: Libertarian Press, 1952. Pp. vi, 174. $3.00.

Those who have read Professor Mises' *Human Action* (Yale University Press, 1949) and his much earlier book on socialism (*Die Gemeinwirtschaft*, Jena, 1922) will find little new in this collection of essays and occasional papers, but they will enjoy (or be irritated by) the brilliance and clarity of his restatement of the case against socialism and all forms of interventionism. Personally the reviewer has long felt that Pigou's analysis of the indirect benefits and the indirect costs that emerge in an exchange economy provides a theoretically impeccable case for many of the interventions which are anathema to Professor Mises. At the same time he is forced to admit that the impossibility of measuring these costs and benefits quantitatively and the imperfectness of government as an agency for correcting them goes a long way toward justifying Professor Mises' refusal to take them into account.

The reviewer has known Professor Mises for more than 30 years and has followed his writings and has noted that his "prediction" batting average is far higher than those of the Peguvians and Keynesians. If Mises predicts that an intervention will have such and such consequences the chances are very great that those consequences will follow. If one of the purposes of economics is prediction, then Professor Mises' economics has to be taken seriously.

Professor Mises' treatment of the doctrine of compensatory spending in one of the essays here under review illustrates the point I am trying to make.

> What the doctrine of balancing budgets over a period of many years really means is this: As long as our own party is in office, we will enhance our popularity by reckless spending. We do not want to annoy our friends by cutting down expenditure. We want the voters to feel happy under the artificial short-lived prosperity which the easy money policy and a rich supply of additional money generate. Later, when our adversaries will be in office, the inevitable consequence of our expansionist policy, viz., depression, will appear. Then we shall blame them for the disaster and assail them for their failure to balance the budget properly.

Many economists will dismiss this statement as superficial, or non-scientific, or just plain prejudiced. But looked at as a forecast or a prediction, does it not fare a lot better?

There is only space here to list the chapter titles and to add that they are all worth reading. Whether you agree or disagree with them, they are always illuminating and always sprightly. The first essay is on "Planning for Freedom." The second argues that "Middle-of-the-Road Policy Leads to Socialism." The

third is entitled "Laissez Faire or Dictatorship." In the next two Professor Mises pays his respects to Keynes: "Stones into Bread, the Keynesian Miracle" and "Lord Keynes and Say's Law." The sixth essay deals with the futility of price control. The pension problem is the subject of the seventh essay. The next one is in praise of the late Benjamin M. Anderson and of his posthumous work, *Economics and the Public Welfare, Financial and Economic History of the United States, 1914–1946*. The last four essays deal with "Profit and Loss," "Economic Teaching at the Universities" and the prospects for a revival of genuine liberalism.

The reviewer would like to take this occasion to draw to the attention of the readers of the *Southern Economic Journal* to a book dedicated to Professor Mises which attempts to tell Mises' story of the interdependence of private property, private enterprise and human freedom in novel form. Henry Hazlitt's *The Great Idea* (Appleton-Century-Crofts, New York, 1951) opens in the year 182 A.M. (after Marx). Moscow is the capital of Wonworld. Every book, song and story with even a reference to the bad old days of economic liberalism has been destroyed. Since language is a carrier of traditions, a new language, Marxano has replaced the babel of tongues and wiped out the last vestiges of capitalistic thinking. Planning and tyranny are complete and world wide. Then, step by step, men rediscover the meaning of liberty and the means of attaining it. The story, almost entirely in dialogue form, is an acute and searching discussion of the central problem of our day with just enough suspense (and a tiny bit of sex) to carry the reader over the rough spots. The reviewer has found it extremely helpful as collateral reading in a number of his courses.

Wabash College JOHN V. VAN SICKLE

The Theory of the Market Economy. By Heinrich von Stackelberg. Translated from the German by Alan T. Peacock. New York: Oxford University Press, 1952. Pp. xxiii, 328. $4.50.

A textbook in micro-economics translated from the German is not likely to strike one as the best of all possible books for hammock reading on a hot summer day, particularly when the book begins with the sentence, "Economic theory is a decidedly difficult study." One's misgivings are likely to be reinforced when he reads in the translator's introduction that the author was a first-rate mathematician and that as a mathematical economist he was on the defensive among his German colleagues who derided the practical implications of even the simple arithmetic of the Kahn-Keynes instantaneous multiplier as the "Münchhausen effect." Stackelberg's *The Theory of the Market Economy* is, however, a pleasant surprise. It is not likely to make any of the best-seller lists, but it is written in a readable style, the sentences are short, and the author has obviously preferred to make his meaning as clear as possible rather than to impress the reader with his erudition. The subject matter is familiar to all American theorists—this is intended to be used as a textbook—but some of the proofs are original and ingenious, the analysis is often subtle, and in reading this book, as in reading

Marshall's *Principles*, one frequently discovers that Stackelberg has said more than immediately meets the eye.

The first draft of this work was published in 1943 as *Grundzügen der theoretischen Nationalökonomie*. While serving as guest professor in Madrid the book was published in its present form first in Spanish and then in 1948 as the *Grundlagen der theoretischen Volkswirtschaftslere*. Stackelberg never returned to Germany; he died in 1946. Again like Marshall's *Principles*, this book represented the culmination of the author's life work, and for the German student of economic theory it may well occupy a similar place.

The book is divided into five parts: Part I (pp. 3–26), "Fundamental Concepts and Relationships in the Economy," begins at the beginning: "Goods that are not scarce are called 'free goods' " (p. 3); "Land and Capital together form Wealth" (p. 7); the three factors of production are "Labour, Land, and Capital" (p. 11); ". . . a fundamental fact that reveals the essential difference between the national economy and a mere collection of individual household economies is the division of labour." Part II (pp. 29–92), "The Theory of Production," discusses the law of returns, cost and the single product firm, joint production, and the section ends with a chapter on "The Problem of Time in Production." The central theme of this part is the principle of diminishing returns. Total, average, and marginal product relationships and factor complmeentarity and factor substitution are discussed in terms similar to those employed in American textbooks in intermediate theory. Stackelberg describes the lowest point on the marginal cost curve as the "Threshold of the law of returns"; the lowest point on the average variable cost curve is the "threshold of production"; and the lowest point on the average total cost curve is the "threshold of profits." Part III (pp. 95–147) is devoted to "The Household Economy." The household is defined as "an economic unit with functions which require the use of economic goods, but not their production. . . . The largest and most important household is the State" (p. 95). The indifference-curve and isoquant (which Stackelberg prefers to call "isophore" since *isoquant* is a combination of a Greek and Latin word) analysis which has become standard in our intermediate theory textbooks is presented here, the section concluding with a chapter on elasticity of demand. The last half of the book begins with Part IV (pp. 151–236), "Price Formation." This section may well be of greatest interest to American readers. The section discusses pure competition, pure monopoly, monopsony, bilateral monopoly, oligopoly, imperfect competition, price regulation by the state, and the structure of market forms. An ingenious device for comparing price and output under monopoly and under competition is included (pp. 176–177), and a method for determining marginal revenue from the average revenue curve which was presented in an American journal two years after the German edition of Stackelberg's book appeared is described (pp. 174, 180). Part V (pp. 239–301), "Income Distribution and the Factors of Production," discusses rent, wages, interest, and profits. The discussion of interest, which is a modernized version of Böhm-Bawerk, is somewhat more extensive than that given to the other distributive

shares. The book is concluded with Part VI (pp. 303-318), "The Competitive Economy and Consumer Satisfaction," which provides an evaluation of perfect competition as the organizing principle of the economy.

Fortunately, the English translation of this book appears at a time when American economists are beginning to see macro-economics in its proper perspective and attention is again being turned to the problems of micro-economics. It is an excellent book for the non-theorist who is interested in learning what the price theorists have been talking about, and it should be a good review for the graduate student who is approaching his final examinations, though he might do better to read it in the original German.

Florida State University CLARK LEE ALLEN

The Prosperity Dilemma: A Study of the Profit Motive. By Joseph H. Sutton. Kansas City, Mo.: Brown-White-Lowell Press, 1953. Pp. ix, 130. $6.00.

The modest purpose of this little volume is to discover why we have no science of economics today and to suggest a line of thought which may lead to such a science (p. 1). In pursuing this objective, Mr. Sutton discovers that "economic thought since the middle ages has been divided into two eras: the merchant (or commercial) up to about 1750; and the classical (or academic) from about 1750 to date" (p. 2). Commercial economic thought virtually disappeared because it became hopelessly enmeshed in a perplexing problem which we may call "the prosperity dilemma." The dilemma may be stated as follows: "Given an economy with the human and material capacity for commerce, this commerce will prosper only so long as the supply of money is increasing. Of course, if the supply of a money increases continuously, then that money will depreciate and eventually lose its exchange value. Hence we reach the conclusion that commercial prosperity can be maintained only be depreciating, and eventually extinguishing, the exchange value of money" (p. 81).

Classical economic thought disposed of this problem by denying its existence. By inventing the fictions that commodities exchange for commodities, that supply creates its own demand (Say's Law), and that demand always is, or tends to be, equal to supply (the law of supply and demand), classical theory avoided the prosperity dilemma by virtually excluding money from its analysis of exchange.

In trying to show that the dilemma is still with us, the author sets up an exchange model of an economic system. He is led to conclude that, while everyone is motivated by the desire for profit in some sense or other, "proprietary (or owner or 'capitalist') money income is complementary to wage income. rather than, as the socialists and communists have argued, the one being a deduction from the other" (p. 84). At the profitable maximum, national wage income should be twice the proprietary income annually, and the total of national consumer money income should amount annually to one and one-half times the stock of money in the country. As a corollary, he arrives at the major premise of the prosperity dilemma—that an increasing supply of money is necessary to commercial prosperity.

According to the commercial theory of supply and demand, if sellers try to maximize their money profits, the supply of merchandise will tend to be slightly in excess of demand.[1] Moreover, the commercial theory of price-quantity holds that, "as demand (or, as quantity sold) increases, price will tend to increase also; and conversely, as demand decreases, price will tend to decrease; but a point may be reached in the expansive direction, at which price only increases, while demand either decreases or does not increase" (p. 45). With these two propositions in mind, it is alleged that, since supply tends to exceed demand in a nonsocialist economy, "(1) either sellers are always seeking to expand their supply and increase their prices, or (2) if this price-quantity expansion is not possible, then the sellers will endeavor to curtail the supply and reduce prices to the measure of demand" (p. 48).

In the absence of the necessary increasing supply of money, the commercial fear of goods and hunger for money are always with us to some extent. They reach their "most perfect synthesis and amelioration" in foreign trade and war. "On the one hand, these activities enable the domestic economy to rid itself of domestically unsaleable surpluses of merchandise and unemployment, while at the same time gaining either foreign gold or domestically created money" (p. 49). However, all countries cannot simultaneously get rid of surplus merchandise and gain foreign gold through trade and, if we must rely on war and preparation for war to get rid of the fear of goods and hunger for money, we are in a sorry plight indeed.

If the supply of money does increase constantly, however, it will eventually become impossible for the flow of merchandise to consumption to keep pace with it. Then the exchange value of money will decline and may eventually be destroyed, and we are in contact with the other horn of the prosperity dilemma. It would seem that we must choose between inflation and commercial depression. Is there no solution for the prosperity dilemma? Mr. Sutton thinks there may be. The scientific solution would seem to be to "expand the money stock for a given time, say a year or two years, then deflate this stock rapidly, say in a day or at most a week" (p. 57).

For this purpose, the author recommends the use of "term money," or "the institution of a money unit which, like a ration coupon, would simply expire in value at the end of a certain time, say the last day of the year or biennium" (p. 58). He is not at all dogmatic about this proposal and is far from convinced that it would be a panacea. Term money might be unacceptable in exchange and, if so, it would not work. On *a priori* grounds, Mr. Sutton would range himself with those who would argue that term money would not work. However, he points out, many things actually do work when put to the test which we were convinced in advance could never work.

In any case, if term money would be unacceptable, "then the prosperity dilemma has in fact no systematic (scientific) solution; and instead we shall go

[1] On the other hand, says the author, "If the sellers' profit motive is suppressed, as by excessive taxes or socialism, then the supply of merchandise will tend to be less than the demand" (p. 85).

on as heretofore with solutions dictated either by uncertain chance (as in the United States 1929–33) or haphazard fiat (as in Soviet Russia December, 1947)" (p. 85). The negative results of experiments are of great value. "If we come to learn that inflation is an essential, unavoidable ingredient of commercial prosperity, and that there is no systematic remedy for this ultimately unwanted inflation, then we shall cease henceforth to search for such remedy, and instead we shall rest forevermore quite content with whatever chance deflations are presented, or with whatever improvised solutions political demagogery can invent. At any rate, we shall, by our negative result, have achieved peace of mind" (p. 86).

The space allotted to this review has been used solely for the exposition of Mr. Sutton's views with the thought that, for readers of the *Southern Economic Journal*, such exposition would automatically provide an adequate critique. According to Mr. Sutton, his book is "the first restatement of commercial economic thought to appear in the English language in over 200 years" (p. 81). It is to be suspected that some readers will hope that a similar period may elapse before the next restatement appears.

University of Florida RALPH H. BLODGETT

Studies in the Structure of the American Economy—Theoretical and Empirical Explorations in Input-Output Analysis. By Wassily W. Leontief and others. New York: Oxford University Press, 1953. Pp. x, 561. $11.00.

This latest addition to the literature on input-output analysis is a collection of essays by members of the Harvard Economic Research Project on the Structure of the American Economy. One would suspect that the results of four years of research by such a group would be required reading for anyone interested in this field. Such is indeed the case.

Although broad in scope, the volume contains as a single unifying theme the attempt to inject more realism into the basic Leontief model. Since this work is carried on simultaneously in many directions by the authors, it will be impossible to present a critical appraisal of all the results in the limited space available here. Instead, this review will only indicate the directions which the researchers have taken.

In Part I, Professor Leontief attempts to inject a time dimension into his basic model. Leontief states that time may either be introduced in the guise of structural change or as a dynamic process. After an analysis of the former, he proceeds to develop the latter. In order to make his model dynamic, Leontief introduces into the basic balance equations the changes in stocks caused by changes in output. The result is a set of differential equations which may be solved for outputs. These equations are not exactly straightforward, however, because of the asymmetry of the acceleration principle. Certain stocks of goods may not be reduced when output contracts although they are readily expansible when output increases. Whenever output is falling, therefore, modifications must be made on the set of basic differential equations. Leontief shows that to arrive at the general dynamic law of change when there are n commodities with ir-

reducible stocks there must be 2^n sets of equations plus a set of rules to explain how the economy shifts from one set to another. It is clear from this cursory description that the dynamic model is vastly more complicated than its static counterpart.

The second portion of the book is concerned with the problem of introducing geographical regions into the old framework. Professor Leontief leads the way by developing his "balanced regional" model. Once this formulation is complete, it is crossed with the dynamic analysis of the preceding section. The result of this union is a dynamic, regional, input-output model. Walter Isard closes this section with an analysis of some of the problems involved in regional input-output studies.

The remaining three parts of the volume consider the problems and difficulties raised by the first two portions. Part III deals with the empirical problem of deriving capital coefficients. This section also contains a case study of the capital requirements of the telephone industry. In Part IV the authors consider the use of technical data in deriving current and capital input coefficients. This work is buttressed with studies of the cotton textile and the commercial air transportation industries. Finally, Part V consists of one chapter in which James Duesenberry and Helen Kistin consider the problem of using prices and income to make conditional estimates of consumer purchases.

The overall effect of this work is undoubtedly to advance input-output analysis on several fronts. Whether such advances represent actual progress, however, is somewhat debatable. The simple, open input-output model was valuable in that by assuming away certain aspects of reality it enabled one to compute with relative ease estimates of various economic variables. It was this very lack of reality which allowed the model to be used with electronic calculating machinery and thus made it preferable to other variants on the general Lausanne scheme. In the new dynamic model of Leontief, however, some of this simplicity is lost. With the loss of simplicity the model must, perforce, lose some of its usefulness. It is a dubious proposition as to whether or not this is a worthwhile price to pay for additional reality; or, perhaps, it is just that progress in any field leaves the timorous either doubtful or breathless.

University of North Carolina JOHN M. RYAN

Costs in Alternative Locations: The Clothing Industry. By D. C. Hague and P. K. Newman. New York: Cambridge University Press, 1952. Pp. vii, 73. Paper, $2.50.

The Control of the Location of Industry in Great Britain. By John Jewkes. New York: American Enterprise Association, 1952. Pp. 36. Paper, 50¢.

In the report of Mr. Hague and Mr. Newman on the clothing industry, the authors addressed themselves to the question whether firms that have established branches in South Wales (the development area) would have found it more or less costly to have established branches in London (had they been permitted to do so). Their analysis begins logically with an investigation of the economic characteristics of the clothing industry. Professor P. Sargant Florence's coef-

ficient of localization and location factor (or location quotient) are used in this investigation; they indicate a significant concentration of clothing manufacture in the London district.

In the main body of the report, the writers compare branches in South Wales with hypothetical plants in London; their method of comparison is based on cost data obtained from firms having existing plants in both the London and South Wales districts. *Under certain rigorous assumptions*, they conclude that cost differentials appear to favor the established London area. Significantly, they suggest, however, that their assumptions are simplifying ones, and that quite possibly their findings are in reverse of fact. But, as we all know, placing a bet with some knowledge of what is in the opponent's hand is better than placing a bet without any knowledge at all. This thought establishes justification for the report, even though the conclusions are indefinite.

By way of criticism of the author's method, it is my belief that a study of industrial location should not be undertaken on the singular basis of cost. Maintenance of private capitalism requires the profit motive, and the profit ability of an enterprise cannot be derived alone from an abstract concept of cost. Some data must be offered on market areas, demand, and price policies. Patently, it may, in fact, be the case that enterprise in South Wales is more profitable, for, further expansion in the London area may be beset with the difficulties of insufficient markets there, forced merchandising in more distant areas, higher transport costs, delivered price zones, or what have you. The *ceteris paribus* assumption, that is inherent to our authors' disregard of the demand aspects of location, leaves a study of costs which is itself deficient, by way of its failure to envisage changes in trading areas.

Mr. Jewkes' report explains the reasons why the British Government has been attempting to control industrial location and the way in which it is accomplishing its objective. The writer offers his opinions readily and establishes clearly his position against this type of control. Possibly, the significant features that we gather about the reasons for the locational control policy of Great Britain are the facts that: (1) it was inspired by the depression of the thirties, not possibilities of a future war; (2) it was based on a philosophy that population tends toward greater and greater concentration, which is held to be socially wasteful and economically inefficient; and (3) the London and Birmingham areas were depriving the Development Area of needed industry.

I do not know of any socio-economic theory which holds that the gregariousness of people is such as to draw everyone to the same place; at best, it is my understanding that the theory on this subject indicates a tendency for population to concentrate and *disperse* is a somewhat systematic manner. Even granting a very uneven distribution of resources, natural economic deglomerative forces would, in time, change a trend toward concentration. On academic and personal grounds, I agree with Mr. Jewkes that a sufficient *economic* basis for control of industrial location does not exist; on the initial ground, I recommend his brief report.

Mississippi State College MELVIN L. GREENHUT

Transportation Factors in the Marketing of Newsprint. By Edward Margolin and William P. McLendon. Washington: U. S. Department of Commerce, 1952. Pp. ix, 126. Paper, 40¢.

Three main types of readers would appreciate this report: (1) those interested in transportation *per se*, (2) those interested in plant location, and (3) those interested in price policies. This review will attempt to provide each of these prospective types of readers with an idea of the way that this report caters to their particular interests.

(1) The first 93 pages of this study explain *mainly* the general significance of transportation costs to the newsprint industry. Voluminous data are listed to provide the reader with insight of the importance of newsprint transportation costs, the establishment and revision of rates on newsprint to the several freight rate territories, the dollar volume of rail and water carrier movements of newsprint, and the length of hauls. Most interesting to this reporter is the comparison of rates associated with point-to-point shipment. This comparison, which occupies approximately the last 40 pages of this *part* of the report, points out many discrepancies of rates as related to mileage. To cite just one: "Lufkin and Coosa Pines rates meet at St. Louis, Memphis, and New Orleans. Comparative mileages from the two southern mills to New Orleans are similar while Coosa Pines, Alabama, is 136 miles and 129 miles, respectively, nearer than Lufkin is to Memphis and St. Louis" (p. 75). The institutional distortion of natural market areas and the significance of the trading area to location in this industry should be patent to the reader without further discussion.

(2) The particular emphasis on plant location occupies the last 16 pages of the report, though the framework for it lies throughout the study. The authors cite two broad types of location factors: (a) natural advantages, and (b) man-made conditions. They relate these factors to the location of or expansion of certain recently established or expanded mills. In particular, I was impressed with the departure from the Weberian type of emphasis on the cost factors of location, which has plagued so much of the literature on the subject. It is refreshing to find that, at least, some of those who are treating the subject inductively are becoming aware of the existence of location factors other than cost. If a criticism were necessary, in this review, I would cite the absence of a theory that would include also, in the *list* of natural advantages, location factors other than cost. (E.g. unequal distribution of population, *even under* the assumption of homogeneity in resources and demand.) But this critique is, of course, scarcely valid, for the purpose of our authors is not to integrate location theory with practise, nor to examine the subtle weaknesses of existing theoretical explanations; their task does not include determinations of the inductive consequences of their findings.

(3) The examination of price policies in the newsprint industry occupies pages 93 to 110. Here the writers trace the change over from f.o.b. mill pricing to delivered price zones in the newsprint industry. The impact of man-made systems of pricing on plant location, and the distortive effects thereof are *suggested* quite adequately in these pages. Certainly, from the standpoint of

short-run analysis, the discussions of the pattern of delivered zone pricing (and its concomitants freight absorption or phantom freight) focus attention on the relationship between plant location and spatial price competition. Only the reader who is seeking a long-run understanding of the spatial ordering of production will not find satisfaction of his wants on these pages; but this type of reader is in quest of a theoretical explanation of competition in space, not the special empirical display of it that is all that is contemplated by this report.

Mississippi State College MELVIN L. GREENHUT

A Geometry of International Trade. By James Edward Meade. New York: Macmillan Co., 1952. Pp. 112. $5.00.

The object of this little book is to organize the geometrical techniques of handling international trade problems around the usual reciprocal supply and demand curves. In addition to treating tariffs and subsidies with a balance of trade, the author depicts the situation resulting when there is a trade deficit or surplus. Throughout the book the author's technique is to set up a problem and then to determine the conditions under which it is solved. For example, he says (p. 102), "we are given all the ad valorem rates of import and export duty in both countries, and we are given the deficit in the balance of trade which can be financed in equilibrium. We have to find what is the rate of exchange which will be compatible with this equilibrium." In each case analyzed, all conditions are specified by curves or slopes or lengths, except one, and the author solves for this remaining variable by a systematic geometrical technique.

I must say that the ingenuity and resourcefulness exhibited in these diagrams is quite remarkable. Furthermore, the standard of exactness in geometrical proofs is reminiscent of Robinson's *The Economics of Imperfect Competition*, far surpassing any other book I have seen in this field.

There are several remarkable features in the book. First, the author succeeds in combining consumer indifference curves and a transformation curve so as to obtain a set of generalized "trade indifference curves." These resemble the ordinary Edgeworthian indifference curves, but are explicitly derived from production, as well as consumption conditions. This trick alone makes the book worth having.

Second, the author achieves a basic simplification of the problem of trade deficits and surpluses. The problem arises in the following way. In evaluating the effect of (say) an import duty on trade it is necessary to make some assumption about how the government disposes of the sums thus raised. Meade assumes that the government pays this out as an income subsidy to consumers. The disposition of the income then depends on consumer preferences and the tax produces simply an income effect.

About the only alternative to this assumption is that the government has its own set of indifference curves which serve to allocate the receipts from the duty between the two goods. However, this procedure would add complications to the geometry. Since the typical indifference curve employed by Meade must be construed as a collective one to begin with, it might as well be assumed that this

curve comprehends the preferences of government. This implies that Meade's procedure produces little loss in realism with a great gain in simplicity.

If there is a weakness in the book, it is to be found in the assumption that the indifference curves used possess all the properties of the ordinary variety, e.g. that they do not intersect. Since this is not the case, those parts of the analysis which can conveniently be developed from individual indifference curves should be differentiated from those which depend directly on the collective curves. In examining this book the reader will have to make this sort of distinction for himself. Although the book under review makes hard reading, the person interested in international trade theory will certainly find therein a most useful set of tools.

University of Alabama JOHN S. HENDERSON

The Development of Economic Thought. Edited by Henry William Spiegel. New York: John Wiley & Sons, 1952. Pp. 794. $6.50.

J. B. Say once asked "What can we gain by collecting the absurd opinions and rejected theories which deserve oblivion? The history of economic doctrine only serves idle curiosity." This collection of essays in which the great economists are both the judgers and the judged goes far towards answering this query, illuminating the dynamic nature of the development of economic thought.

The editor, Professor Spiegel of Catholic University, has brought together 42 short writings by famous economists on the subject of their predecessors. Three of the essays are here printed for the first time, J. M. Clark on his father, Frisch on Wicksell, and Colin Clark on Pigou. (Professor Pigou has the distinction of being the only living economist among the "greats" under review.) These, especially J. M. Clark's, are among the most interesting essays in the anthology.

Eight of the essays appear in their first English translations. Einaudi's resume of Galiani's work is a valuable contribution, since the latter's writings on value are not widely known outside of France and Italy even though they were considerably more sophisticated than those of most of his 18th century contemporaries. Halevy's review of Sismondi is most enjoyable and instructive, and Schumpeter's essay on Böhm-Bawerk, while lacking the light touch found in his later appraisals of the great economists (this having been written in 1925), is a fine tribute to his teacher. The editor should also be complimented on his translations of Marx on the Physiocrats (from Marx's *Theorien über den Mehwert*), Schmoller on Roscher, Walras on Gossen, Hayek on von Wieser, and Demeria on Pareto.

Of the remaining essays, many will already be familiar to the American or English reader. Among the most enjoyable are Jevons' discovery of Cantillon, Veblen's judgement of Marxism ("of a utilitarian origin and of English pedigree"), Mitchell's appraisal, in turn, of the courageous heretic and "placid unbeliever" Veblen, Keynes' human sketch of Jevons, Viner's portrayal of the "Victorian" Marshall, and Samuelson's sympathetic analysis of Keynes, to mention only the few which immediately come to mind.

Professor Spiegel has prefaced each essay with brief biographical data on both

the critic and his subject, and a very generous index has been compiled which adds to the usefulness of this collection as a reference book. In his preface, he comments that in some cases he "had to take what was available to round out the story," especially in light of his self-imposed restrictions on including only one article by an author (excepting Hayek on both Menger and von Wieser, Keynes on Malthus and Jevons, and Viner on Bentham, Mill, and Marshall) and steering clear of obituaries. In some instances this has meant leaving out the best qualified critic, either because that critic wrote too many excellent critiques or because he did not write essays or material susceptible to condensation. Purely from individual choice one might prefer W. R. Scott on Smith, Schumpeter on Marx, Dorfman on Veblen, Keynes or Pigou on Marshall, E. A. G. Robinson or Harrod on Keynes. Also, every reader is bound to find some favorite missing, the most surprising exception in the reviewer's mind being Irving Fisher (although he is included as a contributor, on Cournot). But these are primarily laments that this already lengthy book (794 pages) could not have been still longer.

The essays are arranged chronologically, roughly equal coverage being given to the pioneers, the classicists, "Socialists and Reformers," institutionalists, marginalists, and the moderns. Classifying the economists under appraisal, it is interesting to note that, except for the institutionalists Veblen, Commons, and Mitchell, America is represented only by the reformist Henry George and the marginalist J. B. Clark. The English dominate the contents with 15, the French having 6, Germans and Americans 5 each, Austrians 3, Italians 2, and Swedish and Swiss 1 apiece.

The thread of theoretical forebearers can at least suggestively be linked if one reads, in turn, say, Burns on Mitchell, Mitchell on Veblen, Veblen on Marx, and Marx on the Physiocrats, or possibly Samuelson on Keynes, Keynes on Jevons, and Jevons on Cantillon. By conjecture, one could conclude that the future development of economic thought may equally lie with those who, in some future volume, will be writing critiques on the contemporary contributors, Hicks, Hayek, Robbins, Samuelson, Colin Clark, et al.

In these days where volumes of 'readings' abound, most readers will share both of Kenneth Boulding's sentiments expressed in the foreword: "I began Professor Spiegel's collection with skepticism, and finished it with enthusiasm." The editor has brought forth a very commendable volume, which in pleasure and stimulus must be judged more than worth its price.

Duke University ALLAN MURRAY CARTTER

Comparative Economic Systems. By Theo Surayi-Unger. New York: McGraw-Hill Book Co., 1952. pp. x, 628.

This book is intended for university students who have had an introductory course in principles of economics and for general readers who have had some practical experience in business and who are interested in economic problems.

The author feels that "a third total war again threatens the world and that a sound understanding of the relations among contemporary economic systems

can help in averting such destruction and in leading mankind toward a happier horizon." He then proceeds to discuss the economicisms from the standpoint of practical operation, social premises, and analytical perspective. His declared aim is to substitute economic postulates of coordination between economic systems for postulates of hostility. He attempts to evaluate the possibilities of future coordination between existing economic systems and those that are in process of formation.

The book is organized in three parts. Part one gives consideration to economic systems and the ways they operate. Incidentally, "The reader who is familiar with the fundamentals of economic systems is advised to omit the first three chapters" which deal with (1) the economic practices and institutions affecting the idea of Western freedom; (2) the nature and practices of collectivism in the Soviet Union as they relate to production, distribution, and freedom of consumer choices; and (3) attempts to effect a coordination of individual freedom with social planning, as in the case of Great Britain. The remainder of the first part is devoted to a discussion of the merits of the "alternative," as compared with the "contrasting," approach in the study of economic systems and to certain similarities and differences of economic systems.

In part two, in anticipation of a number of excursions into the field of economic analysis in the third part of the book, the author devotes eight chapters to what he regards as appropriate "social premises." These premises pertain to economic history, ethics, sociology, ethnology, politics, law, geography, and strategy in the competitive struggle between relatively unplanned and planned societies.

In connection with his observations on the subject of strategy between Western and Eastern economic systems, the author reiterates the idea with which he began, namely, that "The theme song of this book and the refrain of every chapter is a consistent effort to point out various aspects of further mutual rapproachment." For, he asserts, "It is easy to see that both orbits can be winners only in such a peaceful development." At the same time, he is not too hopeful. For, he contends, "When it comes to the solution of vital economic and other social problems, the voice of hatred and crude force has a good chance to become overwhelmingly loud. History has shown only a limited number of instances in which objective reasoning and humanitarian understanding could beneficially influence the development of fundamental issues relating to the economic structure. Why should the motive of benevolence prevail with respect to the problem of future clash or coordination between the two leading patterns of economic systems."

In the third part of the book sixteen chapters are devoted to economic analysis. The scope of treatment is comprehensive. It includes wants, utility, demand, consumption, cost, supply, production, prices, agriculture, mining, manufacturing, commerce, monetary systems, income and wealth, wages and profit, rent and interest, public revenues, private and public expenditures, fluctuations of economic activities, international economic relations and the prospects of achieving equilibrium in systems and among systems. In general, the methods of analysis are sound, and perhaps not too technical for students who are well-

grounded in the principles and techniques of elementary and intermediate economic analysis. At the same time, the style is serious and somewhat heavy. The "general reader," for whom the book is also intended, should be prepared to concentrate on the exposition and the reasoning employed.

The conclusion is reached that each of the systems—private enterprise and collective planning—has something to learn from each other. And it is contended that "it is wiser to rely upon the relevant perspectives of *complementarity* and *supplementarity*" than to "overemphasize the significance of competitive features in the functional relationship" between the two systems. As a result, the author believes, the course of evolution of economic society in the world can be made smoother and the wastes of violent changes and adjustments can be avoided.

Evidences of scholarship on the part of the author are easily evident. The overall treatment is logical, and the conclusions reached are defensible. At the same time, instructors who are accustomed to establishing rather clear concepts of each of the several economic systems and then to make comparisons between their respective institutions and practices may find that considerable interpolation is necessary in many connections.

Each of the chapters has a well formulated summary and is followed by a number of questions that are based on the text. The list of suggested readings for each of the chapters is ample and consists of practically all the better known reference materials and treatments on the subject at hand.

Mary Washington College JAMES HARVEY DODD
of the University of Virginia

International Monetary Co-operation, 1945–1952. By Brian Tew. New York: Longmans, Green & Co., 1952. Pp. ix, 180. $2.25.

This compact volume is one of a series edited by Roy F. Harrod. The author is professor of economics in the University of Nottingham. The work comprises three parts, the longest of which, Part Two, is devoted to the institutions of international monetary co-operation. Part One consists of "first principles" of inter-country payments, exchange rates, international liquidity and disequilibria, and the international transmission of depressions. Part Three devotes brief attention to the course of events since the war.

Although Professor Tew discusses specifically the international transmission of depression, he concludes that in the future it may well be that the international propagation of inflation will be as serious a problem. International measures to combat depression should be adaptable to deal with the opposite malady of inflation.

The author gives a fairly comprehensive coverage to the International Monetary Fund and the European Payments Union. He feels that the Fund has been disappointing in its achievements because the members have tended to view its charter not as something to be fulfilled, but rather as something to be bypassed when it seems to conflict with national interests.

Professor Tew has revised an article on sterling which appeared in the *Economic Record* (June 1948) in order to make his discussion of the Sterling Area fit more neatly into the framework of this text. Perhaps the most interesting

aspects of this discussion are the illustrations of the manner in which leakage occurs in the British system of exchange control.

The treatment of the course of events since the war is, on the whole, disappointing. It comprises a much too brief portion of the book and is clearly dated. It does not include data beyond 1951. Not all economists would agree so heartily that the devaluation in 1949 was completely unwarranted. The author feels that devaluation increased the difficulty of restoring equilibrium.

If one recognizes the limitations imposed by both the size and scope of this volume, I believe that it merits the attention of both teachers and students.

University of South Carolina OLIN S. PUGH

The Economic Development of Jamaica. A Report by a Mission of the International Bank for Reconstruction and Development. Baltimore, Md.: The Johns Hopkins Press, 1952. Pp. xviii, 288. $5.00.

This report, a thorough study of Jamaica's economy and its potentialities for future development, was made by a general survey mission of the International Bank and advocates a ten year development program embracing all phases of Jamaica's economic, social, and political future. A complete awareness of the financial implications of the development pervades the entire study. Attempts are made to project the total amount of government expenditures in order to compare them with the probable financial resources but the projection is built on the basis of detailed estimates of which many are unavoidably subject to a considerable margin of error.

The Economic Development of Jamaica consists of two parts. In the first part are found intensive studies in the fields of agriculture, mining, manufacturing, tourism, transport, power, social services, and recommendations for the financing of such a large program based upon the existing resources of the country and its potential development. Part two is composed of thirty-five annexes in which specific projects and recommendations are taken up for extended discussion.

That Jamaica's economy is predominantly agricultural is borne out by the fact that of the 149 pages in part one, 63 are devoted to the study of this particular phase. Such subjects as the characteristics of Jamaican agriculture, the need for an aerial and ground survey to more fully realize the potentialities of the available land, an agricultural development program to alleviate "land hunger" and release the population pressures, soil conservation and rehabilitation, afforestation, pasture improvements, irrigation and land reclamation, rural housing and water supply, agricultural credit to assist the development of this portion of the program, the impact of the program with its effect on employment and the standard of living, and administration of the program are considered with appropriate recommendations.

Much attention is given to the development of manufacturing industries in which a strong suggestion for increased productivity is made. To aid in this improvement an Industrial Development Corporation is to be organized to provide technical and financial assistance on a considerable scale in order to overcome existing deficiencies in industrial management and capital equipment.

Assuming the expansion of agriculture, industry, and tourism which would

result from the implementation of the program, a greater burden will inevitably be imposed on the island's transport facilities. The adequacy of the railway, roads and ports are reviewed and recommendations made.

The remainder of the study consists of a survey of the electric power system, the social services, and the summary and recommendations in which it is concluded that:

> The program will demand of the government and people a degree of singlemindedness and cooperation which has not hitherto been evident. This condition can be achieved only if the people understand the program and rally behind it. The people must know what the program is, what it will do for them and what it will require of them. A publicity campaign on a large scale will be necessary to disseminate this knowledge. It must enlist the participation of the press and radio and of all groups and organizations . . . who are in intimate touch with the people. If the people understand the program they will realize more readily the advantages and obligations of wholehearted participation and will be less likely to tolerate any diversion from its fundamental objectives (p. 149).

The mission is to be complimented on producing a factual, interesting and comprehensive study that is not only a valuable addition to the literature of Latin American economics but also a profitable guide to the future development of Jamaica.

Carson-Newman College HAROLD A. STAINE

The Economic Development of Nicaragua. By International Bank for Reconstruction and Development. Baltimore, Md.: The Johns Hopkins Press, 1953. Pp. xxxi, 424. $5.00.

This is the ninth in a series of reports of survey missions sent by the International Bank for Reconstruction and Development to various parts of the world. In form it is, therefore, similar to others of the reports. In content it is somewhat different since it is specifically a proposed development program of relatively short duration. In fact, the title is somewhat misleading since it implies a statement of current development rather than proposed. I believe the title, "A Development Program for Nicaragua" would have been better.

Nicaragua is the largest of the Central American nations, and except for Honduras is probably less developed in terms of potential growth than any of the others. It is a nation with almost unlimited land in terms of foreseeable population growth; this great physical potential is the principal subject of the appraisal of the Nicaraguan economy. It is noted frequently in the report that progress has been seriously hampered by inadequate internal transportation, an almost complete lack of scientific technology and techniques in agriculture, very low standards of health and education, and serious deficiencies in both administrative and fiscal machinery. At no point do the reporters minimize the difficulties to be overcome, and the serious character of the obstacles which inevitably must be surmounted in even a short-range development.

The mission believes that successful pursuit of its recommendations can, in five years, increase per capita income by 15 per cent and physical output by 25 per cent. These appear to be most modest goals since per capita income is

estimated at $155 per year and average per capita income for the bulk of the population at less than $100. Gross national product for 1951 was estimated at $170 million. From personal knowledge of the political, social, and economic structure of Nicaragua, I suspect that the outlined five year development program will succeed in making the rich richer, but will not markedly benefit the bulk of the population. As the report states, probably 70 per cent of the people are illiterate, and it would be a safe guess that 95 per cent are subject to the devitalizing effects of endemic diseases resulting from centuries of poor sanitation. No five year program will accomplish the changes needed in this area—nor does the report suggest that it will.

Rather, it appears that the mission regards its minimum program (an expenditure of $59 million—half of it for foreign exchange) as but the beginning step of a nation learning to walk economically. The report stresses that improvements will have to come primarily in agriculture and dairying and that little can be expected industrially except the lightest of processing. An urgent note of caution is repeatedly stressed that Nicaragua must avoid costly expenditures on "façade" projects of little real benefit to the economy.

I am particularly impressed in this report by the careful attention to detail in the plans, but from the standpoint of the general reader seeking information about the country it would have been helpful to indicate how estimates of production, income, etc. were arrived at, as well as providing more detail as to the structure of the economy. Perhaps this was not the intention of the report, but if such reports are to be useful to any but the area specialist such information must be provided.

Mercer University VICTOR C. HECK

Surinam: Recommendations for a Ten Year Development Program. Report of a Mission Organized by the International Bank for Reconstruction and Development at the request of The Governments of The Netherlands and of Surinam. Baltimore, Md.: The Johns Hopkins Press, 1952. Pp. xxvi, 271. $5.00.

Surinam or Dutch Guiana is undertaking a ten year development program and the IBRD, after making a country survey, has prepared a series of recommendations. These cover a wide range; at one extreme it urges owners of donkey carts to switch from iron rimmed wheels to rubber tires to ease wear and tear on roads and, at the other extreme, it suggests the installation of New York and Amsterdam information centers for prospective investors.

Surinam is a small country of 200,000 population with an economy dominated by a single commodity: bauxite. It makes up 80 per cent of the exports, 20 per cent of the GNP and provides 32 per cent of the national budget; production is concentrated in the hands of two companies. In this situation the IBRD surveys the other sectors and recommends a ten year investment program of $53 million. The report claims this sum is first allocated to broad sectors such as agriculture (48 per cent), transportation (16 per cent) and consumption, largely housing, (25 per cent) and is then subdivided by specific projects within each sector.

This accords with the IBRD policy of rejecting a "project approach." It

calls, first, for a general survey of the entire economy and, second, specific projects are explored within this frame work and judged in relation to the whole. In this case, however, the bank's slip appears to be showing! It started with a list of projects handed it by the government which are simply grouped into sectors without much chance of balancing one sector against another. For example, 25 per cent of the program earmarked for consumption seems a little high. Moreover the success of the whole program stands or falls on the future of the bauxite market as a source of foreign exchange but no studies are made of Surinam's position vis-à-vis the rest of the world. The tonnage figures are simply extrapolated.

On the projects, however, the IBRD staff does an excellent job and never hesitates to point out instances where, in its judgment, a project is conceived too modestly and should be expanded, or too ambitiously and should be cut. Moreover, the value judgments of the IBRD are made explicit from time to time, e.g., "government controls of all types should be avoided to the extent practicable." Yet the government role in the economy bulks large and fully 30 per cent of the GNP is derived from its expenditures, excluding those of the mother country.

From the economist's point of view one might wish for a fuller inquiry into the relations between wages, unemployment, population growth and productivity. It is alleged, for example, that labor "manages to bargain for wages higher than would be warranted by their marginal productivity in conditions of competition." On the one hand this would imply exploitation of the capitalist yet there has been no disposition for capital to hold back. In 1950 net investment greatly exceeded the amounts necessary for maintaining the stock of capital and for keeping pace with the population growth. On the other hand there is chronic unemployment in the city, agricultural labor is underemployed and net population growth is 2.3 per cent annually. Indeed, the whole ten year program will raise GNP 40 per cent but per capita consumption will barely hold its own or it may possibly increase 1 per cent a year if all goes well. Finally, one is puzzled by the statements on foreign capital. One of the goals in the program is to end the country's dependence on inflows of foreign capital in favor of internal savings. Yet the IBRD recommends that the government relax any restrictions on foreign capital, take fiscal measure to encourage it, advertise the opportunities in capital markets such as New York and expedite new mining concessions, all of which point to increasing the flow of foreign capital.

The purpose of the report, of course, was not to explore the economic ramifications of these problems but to derive a balanced shopping list, first, by weighing the merits of alternative investments and, second, by relating them to the country's economic capacity. The volume is a useful contribution to the study of economic growth.

Vanderbilt University REYNOLD E. CARLSON

An Introduction to the Antitrust Laws. By Arthur Townsend Dietz. New York: Twayne Publishers, 1951. Pp. vi, 84.

Professor Dietz's readable little monograph is intended as a supplementary

text for students in elementary economics. It is largely descriptive in nature and devoid of tedious detail. An advanced student in the area of public policy might expect a more critical analysis, and a lawyer would doubt that the author has examined carefully all the leading pertinent court decisions of recent years. The economic historian would object to the paucity of historical data as a background and framework for decisions and policies. The economist, it is argued, has a better comprehension of the problem than has the lawyer; therefore, the Anti-Trust Division of the Department of Justice should use more economists and, by inference, fewer lawyers in the enforcement of the several anti-trust laws, and the courts should avail themselves of the services of economists as expert witnesses. Enforcement has been handicapped, also, by insufficient congressional appropriations and, it could have been added, by the political and economic philosophy of officialdom and the incessant activities of special interest groups. Professor Dietz argues for "workable competition" without being very explicit in defining his goal. Few would object to the statement, "The ability of the antitrust policy to accomplish its purpose of maintaining and promoting competition in the American economy has never been given a fair trial" (p. 67). Within the limitations indicated, it is believed that the monograph will serve the purpose for which it is intended.

University of North Carolina CLYDE C. CARTER

International Shipping Cartels: A Study of Industrial Self-Regulation by Shipping Conferences. By Daniel Marx, Jr. Princeton, N. J.: Princeton University Press, 1953. Pp. xiii, 323. $6.00.

This volume describes and analyzes the shipping conferences through which ship owners have, for many years, controlled competition among themselves as to rates, schedules, ports of call, etc. In the shipping conference or ring the member firms remain independent as to ownership. While this book is restricted to the shipping conferences, it throws considerable indirect light upon similar types of problems in air transportation and industrial cartels.

The author has gone very extensively into description of shipping practices over the years, relying to a great extent upon official investigations, both here and abroad. Indeed, perhaps, the chief fault with the book is this: It is very long on fact and very short on analysis.

Unfortunately, too, the description and the analysis are largely placed in separate chapters. A shorter book organized around the theory of monopoly as complicated by the international legal aspects of ocean shipping, with pertinent historical facts brought in to illustrate analytical conclusions, would have been more useful from the standpoint of the economist. As now organized, Mr. Marx's book is primarily economic history and, within that framework of reference, is a useful job.

Chamber of Commerce of the U. S. A. R. BUFORD BRANDIS

The Industrial Store. By Ole S. Johnson. Atlanta, Georgia: Division of Research, School of Business Administration, Atlanta Division, University of Georgia, 1952. Pp. xv, 191. $1.50.

This book provides an objective analysis of industrial stores. In order to do this, a detailed history of this type of store as a retail institution was made in order to provide a setting for the actual operations served as the basis for the analysis. Considerable study of published documents and unpublished materials provided not only the necessary background for field investigation, but also an extensive bibliography which is presented at the end of the book.

Personal interviews were held with company executives, store managers and other employees, labor union officials, arbitrators, librarians, and others. Coupled with the interviews were detailed observations and visits to representative stores.

The industrial, or "company", store has been a subject of controversy not only among the students of marketing, but also among managers and workers. This book, with its historical development as well as detailed analysis of present day operation, gives considerable insight into the problems faced by management in providing this outlet and by the workers in accepting the institution. As is shown in this study, there is little doubt that the company store was a source of profits to the operators of mills, mines, and factories in basic industries. The system was subject to grave abuses such as compulsory trading, high prices, and the issuance and discounting of scrip. The monopolistic position maintained by pressure from the company and geographic isolation led to the consideration of such stores being suppressed by law. This movement failed, however, to bring about its elimination.

The entrance of the labor union and the improved relationship between the companies and the laboring groups brought about a change in the industrial store. Today it is considered by most companies as a marketing institution which must do an efficient job of merchandising in competition with other outlets.

This book provides students of marketing, personnel management, labor relationships, and related fields with an understanding of the place of this peculiar marketing establishment, its historical development, and present operation. It meets a need previously felt by many. It is through this and similar studies that a better concept may be obtained of institutions which account for a relatively small percentage of sales, but which have strong economic influences in their particular area.

University of Alabama DONALD F. MULVIHILL

Creating an Industrial Civilization. Edited by Eugene Staley. New York: Harper and Bros., 1952. Pp. xvi, 368. $4.00.

This book reports the results of the much-discussed Corning Conference, held under the auspices of the American Council of Learned Societies and the Corning Glass Works, May 17–19, 1951, at Corning, New York. The conference participants were nearly one hundred top-level leaders drawn from "management, labor, government, arts and professions, science, and humanistic studies." In the words of Editor Staley their concern "was to take a candid look at our industrial civilization from the standpoint of *human values*."

The conference discussions are ably reported by Eric Larrabee, John A. Kouwenhoven, Reuel Denney and David Riesman, Irwin T. Sanders, and Lawrence K. Frank. The conference was built around four major problem areas: Work and Human Values in Industrial Civilization, Leisure and Human Values in Industrial Civilization, The Individual's Sense of Community in Industrial Civilization, and Confidence in Life in Industrial Civilization. Roundtable groups of from twenty to twenty-five discussed each of these areas. Background papers dealing with each of the major problem areas were circulated among the conferees before the roundtable discussions got under way. These papers, which appear to have served as a starting point for most of the discussions, were prepared by William F. Whyte, Reuel Denney and David Riesman, Francis Chase Rosecrance, and Robert L. Calhoun.

Throughout the proceedings there was a tendency on the part of some conferees simply to assume that the development of modern industrial culture has brought with it a great variety of problems, including those under discussion: increasing dissatisfaction of workers, a lack of competence in spending leisure time, a weakened sense of community participation by the individual citizen, and a growing lack of confidence in modern industrial civilization. To some extent, this assumption was suggested and perhaps encouraged by the background papers. But the assumption did not go unchallenged; at every session there were some who insisted on raising the question of whether these problems are in fact rooted in reality. An illustration of such a situation is afforded by the roundtable on leisure where the challenging group took the view that "leisure may be more of a problem for those who worry about it than it is for those who spend it. . . ."

As might be expected, the participants found it impossible to compartmentalize their subject problems; throughout the conference these kept spilling over into each other. A number of mutual concerns recurred again and again in each of the discussion groups. One of the most persistent of these (and the most fundamental) was that of defining human values. What are the values in our society? How can they be determined for the mass of people who live and work in modern industrial society? And, of course, the equally important, though dependent, question: how can modern industrial culture operate to aid people in the realization of these values? Although the conference did not (obviously it could not) reach conclusions on these questions, it did make a number of fruitful suggestions. For example, with respect to the human values of people in their work situation, there was a fairly large area of agreement that one rewarding approach to the determination of such values is to gain an understanding of the satisfactions and dissatisfactions of workers. Necessarily this approach leads to an inquiry into many facets of industrial culture, both on the job and outside the immediate work environment.

The breadth of interests in and suggestions about the problems dealt with at the conference defy adequate description in a brief review. It was truly a "problem-raising" conference, and in this sense its results should have great

value and significance for those truly interested in the area of human relations. Undoubtedly, this book will result in several kinds of frustrations for different types of readers. Some will be thwarted because it offers no neat answers to some of the most pressing questions of our time. Others, who wish to probe more deeply, will perhaps feel a mild sense of frustration because the book offers only samples of the total record of the discussions which took place.

There can be little doubt that this record of a truly unique conference will prove stimulating and challenging to those who are really interested in the fundamental question of how to make our industrial society work well in its role as a dispenser of satisfactions to the people who work in it and live in it.

University of Alabama LANGSTON T. HAWLEY

PERSONNEL NOTES

Roscoe Arant, professor of economics at the School of Industrial Management, Georgia Institute of Technology, was on leave of absence for the spring quarter, 1953, engaged in special work in the field of economics.

Lowell D. Ashby, associate professor of economics at the University of North Carolina, has been awarded a grant from the Fund for the Advancement of Education Fellowship (established by the Ford Foundation) for the academic year 1953–1954. He will spend the year at Harvard University studying in the field of "The Theory of National Income."

G. H. Aull, head of Department of Agricultural Economics at Clemson College, has been elected a member of the Council of the International Conference of Agricultural Workers.

Gerald A. Barrett, associate professor of business law at the University of North Carolina, participated in the du Pont Symposium on business problems in June.

James L. Bass has been appointed assistant professor of business administration at Mississippi State College while on leave from Howard College.

W. H. Baughn, associate professor of business administration at Louisiana State University, is spending six weeks this summer with the Chase National Bank in New York City under the program sponsored by the Foundation for Economic Education.

J. C. D. Blaine, associate professor of business administration at the University of North Carolina, has been awarded a fellowship through the Foundation for Economic Education to study the operations of the Warner and Swasey Company in Cleveland this summer.

Reynold E. Carlson has resigned from Vanderbilt University to become economist with the Western Hemisphere Division of the International Bank for Reconstruction and Development in Washington, D. C. He was professor of economics and head of the Brazilian Institute at Vanderbilt.

Robert W. Carney has been appointed assistant professor of industrial relations at the University of Louisville.

Thomas H. Carroll, dean of the University of North Carolina's School of Business Administration, was elected secretary-treasurer of the American Association of Collegiate Schools of Business at the meetings of that organization in April 1953.

Ira Castles, assistant professor of economics at the University of Rhode Island, will teach economics at Wofford College beginning with the fall term of 1953.

William T. Chaffin has resigned as assistant professor of economics (accounting) in the College of Business Administration of the University of Tennessee.

Robert Cojeen, associate professor of accounting, University of Kentucky, is attending the University of Indiana during the 1953 summer session.

John R. Craf has been appointed dean of the School of Business, University of Louisville.

William O. Cummings, Julian Price lecturer in life insurance at the University of North Carolina, has resigned to accept a position as field representative with the Life Insurance Agency Management Association in Hartford, Connecticut.

Herman Ellis, assistant professor of economics, University of Kentucky, returned to his teaching duties in June after a year's graduate study at the University of Indiana.

William D. Geer, instructor of economics and business administration at Mars Hill College, has been granted a year's leave of absence to study toward the doctorate at Indiana University.

John H. Goff, professor of business administration at the School of Business Administration, Emory University, has been awarded a fellowship by Swift and Company to study the meat packing industry in Chicago this summer.

Albert Griffin, associate professor of business administration at the School of Business Administration, Emory University, has been awarded a fellowship in business by the Foundation for Economic Education to study for six weeks this summer at Sears, Roebuck and Company, Chicago.

Walter Hargreaves, professor of economics, University of Kentucky, is making a study during this summer of the direct revenue effects of new industry in Kentucky for the Department of Revenue and the Agricultural and Industrial Development Board.

L. T. Hawley, professor of management at the University of Alabama, was on leave for the spring semester to work with the Human Resources Research Project for the United States Air Forces.

Warren Haynes, associate professor of economics, University of Kentucky, is on leave for the second semester and summer of 1953 to teach and do research at the University of California at Berkeley.

Victor C. Heck, professor and chairman of the Economics Department at Mercer University, has been awarded a fellowship by the Commission on Economics in Teacher Education of the Joint Council on Economic Education to participate in a Workshop on Economics in Teacher Education to be held August 9–28 at Riverdale Country School, New York.

Richard L. Hitchcock has been appointed assistant professor of accounting at the University of Louisville.

Joseph Logan Massie, assistant professor of economics, University of Kentucky, has been granted leave of absence for 1953–54 to do graduate work at the University of Chicago.

James A. Morris, professor of economics at the University of South Carolina, has been awarded a grant by the Ford Foundation for a one-year study of Industrial Economics at Oxford University and the London School of Economics in England.

Frederick S. Morton, III, associate professor of economics and business at Davidson College, will be on leave during the first semester of 1953–54 to do further graduate work at the Harvard Graduate School of Business.

Walter H. Pearce, instructor in economics, University of Kentucky, returned to his teaching duties in June after a two-year leave for graduate study at Duke University.

Ralph William Pfouts, associate professor of economics at the University of North Carolina, has been awarded a postdoctoral fellowship for study at the Department of Applied Economics of Cambridge University (England) by the Social Science Research Council. His subject for study is "The Application of Welfare Criteria Derived from Consumers' Surplus to Empirical Data."

Hoyt C. Price has been appointed second secretary in the American Embassy at Saigon. He was formerly on loan by the Foreign Service to the Mutual Security Agency, and he has served in the MSA Mission in Brussels as program officer.

Charles E. Ratliff, assistant professor of economics at Davidson College, will be on leave during 1953–54 to do further graduate work at Duke University.

Robert H. Sanders, associate professor in the Department of Economics and Sociology at Alabama Polytechnic Institute, has been granted a Ford Foundation Fellowship for the 1953–54 college year. He will spend most of his time in the field of marriage relations at the University of Chicago.

G. T. Schwenning, professor of business administration at the University of North Carolina, is serving for the third consecutive year as chairman of the Finance Committee of the Academy of Management and as a member of the Executive Committee of that organization.

Eldred C. Speck, assistant professor of commerce, University of Kentucky, will return to his teaching duties in September after a leave for a year and a half to do graduate study at Northwestern University.

W. R. Spriegel, dean of the College of Business Administration, University of Texas, was elected vice president of the Academy of Management at the last annual meeting of that organization.

Corydon P. Spruill, professor of economics and dean of the General College of the University of North Carolina, was on leave during the spring quarter of 1953 for study and travel in Europe.

D. W. Townsend, instructor in economics at Louisiana State University, has resigned to accept a position as assistant professor of economics at the University of Houston, effective in September.

Marvin Tummins, assistant professor of accounting at Louisiana State University, has resigned his position to accept an assistant professorship of accounting at the Atlanta Division of the University of Georgia.

Raymond F. Wallace, professor of industrial management in the School of Commerce and Business Administration, University of Mississippi, died on February 6.

James S. Worley, professor of economics at Wofford College, will be on leave for graduate work toward the Ph.D. degree for the next two years.

* * *

The following names have been added to the membership of the Southern Economic Association:

Robert O. Boston, Chowan College, Murfreesboro, N. C.

John W. Chisholm, College of Commerce, Louisiana State University, Baton Rouge, La.

Jere W. Clark, College of Commerce, West Virginia University, Morgantown, W. Va.

Donald Dewey, 611 Watts Street, Durham, N. C.

George Heberton Evans, Jr., Department of Political Economy, Johns Hopkins University, Baltimore 18, Md.

Arnold C. Harberger, Johns Hopkins University, Baltimore 18, Md.

James E. Hibdon, University of North Carolina, Chapel Hill, N. C.

D. D. Humphrey, Box 4652, Duke Station, N. C.

Fritz Machlup, Johns Hopkins University, Baltimore 18, Md.

Frederick S. Morton, Davidson College, Davidson, N. C.

Everett D. Schadt, % City Hall, Thomasville, N. C.

Curtis E. Tate, Jr., Furman University, Greenville, S. C.

James E. Thorogood, University of the South, Sewanee, Tenn.

M. N. Trued, University of Virginia, Charlottesville, Va.

NOTE

TENTATIVE PROGRAM OF THE SOUTHERN ECONOMIC ASSOCIATION

ATLANTA BILTMORE HOTEL, ATLANTA, GEORGIA, NOVEMBER 13 AND 14, 1953

Friday, November 13, 1953

9:00 A.M. Meeting of the Executive Committee
10:00 A.M. Morning Session
Chairman: Gordon Siefkin, Emory University
Topic: Business Cycle Analysis
1. Post-Keynesian Business Cycle Theory, Don D. Humphrey, Duke University
2. Business Cycle Analysis: The Practical Side, Gregor Sebba, University of Georgia
Discussion: Two prepared discussions for each paper. Participants to be selected.
2:00 P.M. Afternoon Session
Chairman: Lee Bidgood, University of Alabama
Topic: Problems of Southern Economic Development
1. Industrialization in the South, Stefan Robock, Tennessee Valley Authority
2. The Impact of Industrialization upon Southern Agriculture, William H. Nicholls, Vanderbilt University
Discussion: Two prepared discussions for each paper. Participants to be selected.
6:00 P.M. Dinner Meeting
Officers, Editors and Reporters
8:00 P.M. Evening Session
Chairman: Tipton R. Snavely, University of Virginia
Presidential Address: B. U. Ratchford, Duke University

Saturday, November 14, 1953

9:00 A.M. Annual Business Meeting
10:00 A.M. Morning Session
All round tables will be held at this hour. Specific rooms in the Biltmore Hotel for each of these meetings will be announced.
1. Round Table on Industrial Relations
Chairman: To be selected
The Guaranteed Annual Wage, Harry D. Wolf, University of North Carolina
Regional Characteristics of Industrial Relations in Southern Industry, George R. Koons, Bowaters Southern Paper Corporation
Discussion: Two prepared discussions of each paper. Participants to be selected.
2. Round Table on Public Utilities
Chairman: Clarence E. Kuhlman, University of Tennessee
(Program being arranged by the Round Table Chairman)
3. Round Table on Teaching Economics to Undergraduates
Chairman: Gerald E. Warren, Tulane University
(Program being arranged by the Round Table Chairman)

JOHN B. MCFERRIN
First Vice President

BOOKS RECEIVED

Stabilizing Construction: The Record and Potential. By Miles L. Colean and Robinson Newcomb. New York: McGraw-Hill Book Co., 1952. Pp. xvii, 340. $6.00.

The Economic Development of Nicaragua. By International Bank for Reconstruction and Development. Baltimore, Md.: The Johns Hopkins Press, 1953. Pp. xxxi, 424. $5.00.

Principles of Private and Public Planning: A Study in Economic Sociology. By Wilhelm Keilhau. New York: Burt Franklin, 1952. Pp. 272. $3.75.

Jeremy Bentham's Economic Writings: Critical Edition Based on His Printed Works and Unprinted Manuscripts. By W. Stark. New York: Burt Franklin, 1952. Pp. 412. $6.00.

Can Russia Survive? By F. B. Czarnomski. New York: Philosophical Library, 1953. Pp. 128. $2.75.

Economic Aspects of the Second Bank of the United States. By Walter Buckingham Smith. Cambridge, Mass.: Harvard University Press, 1953. Pp. xii, 314. $5.00.

The Electrical Manufacturers, 1875–1900. By Harold C. Passer. Cambridge, Mass.: Harvard University Press, 1953. Pp. xvii, 412. $6.00.

Managing Your Money. By J. K. Lasser and Sylvia F. Porter. New York: Henry Holt and Co., 1953. Pp. xiii, 430. $4.95.

Consumer Economics. By Pearce C. Kelley. Homewood, Ill.: Richard D. Irwin, 1953. Pp. xv, 662. $6.00.

Statistical Abstract, India, 1950. By Central Statistical Organisation. Calcutta, India: Government of India Press, 1952. Pp. xix, 901. Rs. 15 or 23 sh. 6d.

Sugar: Facts and Figures, 1952. Washington, D. C.: United States Cuban Sugar Council, 1952. Pp. 175.

Salesmen's Compensation. By Harry R. Tosdal assisted by Waller Carson, Jr. Vols. I and II. Boston, Mass.: Harvard University Graduate School of Business Administration, 1953. Pp. xv, 459, xxvi; vi, 461, xxvi. $11.50.

Government's Role in Economic Life. By George A. Steiner. New York: McGraw-Hill Book Co., 1953. Pp. xi, 440. $6.00.

Demand Analysis: A Study in Econometrics. By Herman Wold in association with Lars Juréen. New York: John Wiley and Sons, 1953. Pp. xvi, 358. $7.00.

Open the Mind and Close the Sale: The Key to Success in Selling. By John M. Wilson. New York: McGraw-Hill Book Co., 1953. Pp. 256. $3.75.

The Economics of Defense: A Primer of American Mobilization. By Richard V. Clemence. Harrisburg, Pa.: Stackpole Co., 1953. Pp. x, 138. $2.25.

Fundamentals of Corporation Finance. By Joseph F. Bradley. New York: Rinehart & Co., 1953. Pp. xix, 583. $6.00.

An Introduction to Linear Programming. By W. W. Cooper, A. Henderson and A. Charnes. New York: John Wiley & Sons, 1953. Pp. ix, 74. Paper, $2.50.

Kentucky Income Payments by Counties, 1939, 1947, 1950, and 1951. By Will S. Myers, Jr., John L. Johnson and James W. Martin. Lexington, Ky.: Bureau of Business Research, University of Kentucky, 1953. Pp. iv, 37.

Japan's Post-War Industrial Recovery. By Sherwood M. Fine. Tokyo, Japan: Foreign Affairs Association of Japan, 1953. Pp. 52.

Taxation and Incentive. By Lady Rhys-Williams. New York: Oxford University Press, 1953. Pp. 188. $3.50.

The Economic Development of Ceylon. By International Bank for Reconstruction and Development. Baltimore, Md.: The Johns Hopkins Press, 1953. Pp. xxxii, 829. $7.50.

Wages and Salaries in the United Kingdom, 1920–1938. By Agatha L. Chapman assisted by Rose Knight. New York: Cambridge University Press, 1953. Pp. xiv, 253. $9.50.

Economic Planning for the Peace. By E. F. Penrose. Princeton, N. J.: Princeton University Press, 1953. Pp. xiv, 384. $7.50.

Contributions to the Theory of Games. Vol. II. By H. W. Kahn and A. W. Tucker. Princeton, N. J.: Princeton University Press, 1953. Pp. viii, 395. Paper, $4.00.

The Soviet Impact on Society. By Dagobert D. Runes. New York: Philosophical Library, 1953. Pp. xiii, 202. $3.75.

Essay in Politics. By Scott Buchanan. New York: Philosophical Library, 1953. Pp. xiii, 236. $3.75.

Conflict and Stability in Labor Relations: A Case Study. By Joseph Shister and William Hamovitch. Buffalo, N. Y.: Department of Industrial Relations, School of Business Administration, University of Buffalo, 1952. Pp. 69.

20 Giants of American Business: Biographical Sketches in Economic History. By Walter Wilson Jennings. New York: Exposition Press, 1953. Pp. 480. $5.00.

Investments. By Julius Grodinsky. New York: Ronald Press Co., 1953. Pp. xii, 567. $6.00.

Introduction to Economics for Agriculture. By John Donald Black. New York: Macmillan Co., 1953. Pp. xv, 727. $6.00.

Industrial Advertising Handbook. Edited by Julian Boone. New York: McGraw-Hill Book Co., 1953. Pp. xiv, 333. $6.50.

Economic Essays. By R. F. Harrod. New York: Harcourt, Brace and Co., 1953. Pp. xiii, 301. $4.50.

The Industrial Store. By Ole S. Johnson. Atlanta, Ga.: Division of Research, School of Business Administration, Atlanta Division, University of Georgia, 1952. Pp. xv, 171. $3.12.

The Mexican Venture. By Tomme Clark Call. New York: Oxford University Press, 1953. Pp. xii, 273. $4.50.

Community Wage Patterns. By Frank C. Pierson. Berkeley and Los Angeles, Calif.: University of California Press, 1953. Pp. xvii, 213. $3.75.

Readings in Business Cycles and National Income. Edited by Alvin H. Hansen and Richard V. Clemence. New York: W. W. Norton & Co., 1953. Pp. xi, 588. $5.25.

Principles of Economics. By James Gemmell and Howard L. Balsley. Boston, Mass.: D. C. Heath and Co., 1953. Pp. xiii, 589. $4.75.

Economic Change: Selected Essays in Business Cycles, National Income, and Economic Growth. By Simon Kuznets. New York: W. W. Norton & Co., 1953. Pp. viii, 333. $4.50.

The American Way: The Economic Basis of our Civilization. By Shepard B. Clough. New York: Thomas Y. Crowell Co., 1953. Pp. viii, 246. $4.00.

Marketing: An Introduction. By Myron S. Heidingsfield and Albert B. Blankenship. New York: Barnes and Noble, 1953. Pp. xi, 270. Paper, $1.50.

Nationalization in Practice: The British Coal Industry. By William Warren Haynes. Boston, Mass.: Division of Research, Graduate School of Business Administration, Harvard University, 1953. Pp. xviii, 413. $4.00.

Trade Not Aid: A Program for World Stability. By John H. Williams. Cambridge, Mass.: Harvard University Press, 1953. Pp. 33. Paper, 60¢.

Shares of Upper Income Groups in Income and Savings. By Simon Kuznets. New York: National Bureau of Economic Research, 1953. Pp. xli, 725. $9.00.

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